Beyond the numbers:

A new financial management and accountability framework for Ontario

Ontario Financial Review Commission

THE ONTARIO FINANCIAL REVIEW COMMISSION
7TH FLOOR, FROST BUILDING SOUTH
TORONTO, ONTARIO
M7A 1Y7

November 10, 1995

The Honourable Ernie Eves,
Minister of Finance
Province of Ontario

Dear Mr. Eves:

I am pleased to submit the final report of the Ontario Financial Review Commission, entitled *Beyond the numbers: A new financial management and accountability framework for Ontario*, in accordance with the Order in Council which established the Commission.

I would draw your attention initially to the Executive Summary and listing of all Recommendations.

As you will note, we urge you in your capacity as Minister of Finance to take immediate action on this report. We also ask you to note in your role as Deputy Premier and Government House Leader our recommendation for leadership in introducing legislative measures and driving cultural change throughout the public sector. We believe the action outlined in this report is essential in helping government meet its fiscal priorities while ensuring better use of public resources.

We would be very pleased to discuss with you any aspect of this report or our work at your earliest convenience.

Finally, I would like to express my sincere thanks to my fellow members of the Commission, those who appeared before us, members of the public who made written submissions, and others who helped in our deliberations, all of whom are named in the report.

Yours very sincerely,

Bill Broadhurst

William H. Broadhurst, Chair
Ontario Financial Review Commission

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General enquiries regarding this report may be directed to:

Ministry of Finance
Communications and Corporate Affairs Branch
(416) 325-0333

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Acknowledgements

The Commission would like to acknowledge and thank all those who assisted in its deliberations. It recognizes that the short time period it had to complete its work often resulted in considerable inconvenience to both internal and external advisers.

The external advisers were generous with their time and made considerable effort to adapt to the Commission's timetable.

We are also most appreciative of those who took the time to send briefs in response to the Commission's newspaper advertisement. We regret that there was not time to arrange and hold public hearings.

Internal advisors responded promptly and frequently even though they faced many other pressing demands of their regular positions. These included representatives from the Ministries of Finance and Labour, from Management Board Secretariat and from a number of Crown Agencies.

The names of those included in the above three paragraphs appear later in this report.

Our special adviser, Provincial Auditor Erik Peters, and Ken Leishman and Jim McCarter from his office provided useful insight into many of the issues being examined by the Commission.

A number of Ministry of Finance personnel were directly assigned to assist the Commission. Each responded generously with their time and talents. They were Michael Gourley, our Secretary and Deputy Minister, Bob Christie, Assistant Deputy Minister, Robert Siddall, Jay Coghill, Henry Goodman, Jim McArthur, Dino Radocchia, Kelly Scott, Agnes Geller and Catharine Lyons-King. A special note of thanks to the last mentioned, who was responsible for successive drafts of this report and had the unenviable task of plotting a path through eight editors.

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Executive summary

This report presents a new framework for better use of resources throughout the public sector. It will move government from its current process orientation to a performance orientation. It lays out a cycle of planning, reporting, monitoring and evaluating that aims to ensure programs meet real needs, and meet them effectively. It reflects a belief that the Legislature is the proper forum for public accountability. And it represents hope for real and lasting change that will help to achieve in the most effective and efficient way the urgent goal of balancing the Budget and subsequently reducing debt in Ontario.

Putting this framework in place will require leadership. For that reason, the Commission urges the Minister of Finance and his colleagues in government to act immediately, both to introduce legislative measures where necessary and to start the process of cultural change throughout the public sector.

The report follows from the deliberations of the Ontario Financial Review Commission, which was announced in late July 1995 with a mandate to review the Province's accounting, reporting, and financial management practices. It was asked to address the need to restore credibility and confidence in the reporting of Ontario's financial situation.

In its deliberations, the Commission focused on studying problems, setting out firm recommendations where there were clear solutions and laying out a path for further work on more complex issues.

Its 55 recommendations fall into three main areas, which define the three major sections of this report:

I. Planning
II. Financial reporting and accounting
III. Crown agencies

In each of the areas it looked at, the Commission identified opportunities for more efficient and effective use of public resources. While the need to capitalize on these opportunities is not unique to the Ontario public sector, the current financial situation of the Province demands immediate change.

The Commission agrees with government's focus on deficit and debt reduction as a major priority. Using resources more efficiently is one way to help government meet its targets while preserving vital public services.

To that end, the Commission believes its most important recommendations relate to planning:

- planning that requires organizations to measure their progress towards appropriate goals is the road to more effective and efficient use of public resources;

- planning that makes allowance for unforeseen events reduces the risk that government will fail to meet its debt and deficit targets.

To reinforce the cycle of planning, monitoring, evaluating and using past results to improve future performance, the Province must also report on a timely basis that is consistent with the way it lays out its plans.

These premises were the basis for the Commission's proposals, which it believes are key to its vision of a more effective and efficient public sector in Ontario. The following is a summary of its recommendations:

• That government adopt a **prudent planning framework** which

  - encourages cautious forecasting and better expenditure planning;
  - monitors results for the purposes of taking any corrective action that is needed; and
  - includes provisions for unexpected changes in its economic outlook

  in order to ensure that it meets or exceeds its deficit and debt reduction targets in the most effective and efficient way.

- That government and all of its ministries and agencies be required by legislation to prepare annual **business plans** that:
  - outline goals and priorities;
  - explain targets for assessing effective and efficient performance and outline how progress towards them will be measured;
  - report on progress toward established goals and explain the reasons for any changes in the plan; and
  - cover the upcoming fiscal year and following two years.

- That government lay out in its annual Budget and business plan both **debt reduction** and **deficit reduction** targets.

- That the Budget set out a **contingency fund** to cushion against unforeseen economic changes.

- That government initiate a system of **recognition and rewards** to motivate effective and efficient behaviour, and remove current disincentives to such behaviour.

- That government adopt **accounting and financial reporting** standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) for the Budget, the quarterly updates on the fiscal situation, and the Estimates or other spending authority.

- That government adopt **one financial management and reporting system** to replace the incompatible systems currently in use. This will also encourage the earlier adoption of new information technology.

- That government move to change and speed up the **legislative process** so that ministry plans can be reviewed early enough to have meaningful input, the Budget is tabled before the start of the fiscal year, and spending authority is put before the Legislature immediately.

- That government set out a **new framework** for deciding which type of organization — a ministry, a Crown agency,

or the private sector — will deliver services most effectively and efficiently.

- That government require the **Workers' Compensation Board** to draw up, within the next year, a workable and credible plan to eliminate its existing unfunded liability.

- That government immediately draw up an **action plan** to show leadership in putting these recommendations in place.

The Commission was also asked to look at the costs of its recommendations. The initial outlay to put in place many of the recommendations may be significant. However, the Commission believes the major long-term benefits, both monetary and in terms of better financial management, will far outweigh those costs.

A listing of all recommendations follows.

Recommendations

I. Planning

A. Framework for fiscal planning

Recommendation I.1: That government adopt a prudent planning framework which:

- encourages cautious forecasting and better expenditure planning;
- monitors results for the purposes of taking any corrective action that is needed; and
- includes provisions for unexpected changes in its economic outlook

in order to ensure that it meets or exceeds its deficit and debt reduction targets in the most effective and efficient way.

Recommendation I.2: That government present a three-year business plan as part of its annual Budget. This business plan should:

- outline goals and priorities in enough detail that ministries can use it as a basis for their business planning, as outlined in Recommendation I.16 below;
- explain government's targets for effective and efficient performance and how it will measure progress towards them;
- report on progress toward established goals and explain the reasons for changes from its previous plan; and
- outline the revenue, expenditure and economic projections for the upcoming year and the following two years.

B. Better fiscal management and revenue forecasting

Recommendation I.3: That government return to the practice of tabling its Budget, which would now include a business plan, before the start of the fiscal year.

Recommendation I.4: That government provide, in its annual Budget, deficit targets (and underlying fiscal forecasts) for the upcoming and following two years, and that it measure itself against these targets in the subsequent Budget and other reports to the people of Ontario.

Recommendation I.5: That government provide in its annual Budget a longer-term view of its debt reduction targets, and that it measure and report on its progress towards those targets in its subsequent Budget and other reports.

Recommendation I.6: That the Budget contain commentary on socio-economic trends that are likely to have a significant longer-term impact on the Province's fiscal health, and outline measures that may be needed to deal with those.

Recommendation I.7: That government's fiscal forecast be biased towards the cautious end of the range of forecasts that are consistent with its economic forecast.

Recommendation I.8: That the Budget set out a contingency fund exclusively to cushion fiscal targets against the impact of negative unforeseen economic changes. Government should apply any part of the fund which has not been spent by year-end to reducing the deficit and debt.

Recommendation I.9: That, where there is disagreement or uncertainty over the methodology for calculating future federal transfer payments, Ontario adopt for the purposes of fiscal planning the most prudent methodology.

Recommendation I.10: That the Ministry of Finance each year collect and evaluate a list of contingent expenditures and other latent costs throughout government that might increase spending in the next several years; and that the Ministry establish a clear plan for dealing with them.

Recommendation I.11: That government use significant unanticipated revenues to reduce

the deficit and debt, and that this be clearly disclosed in financial reporting.

Recommendation I.12: That the Ministry of Finance focus its efforts to improve its revenue forecast on getting better information about its main sources of revenue: personal income tax, corporations tax and retail sales tax.

Recommendation I.13: That the Ministry of Finance take steps to create a fuller and more open system of personal income-tax information sharing with the federal government, and pursue as a matter of urgency its continuing requests for monthly information on source deductions.

Recommendation I.14: That forecasts of revenues from any new non-tax initiative be supported by a prudent and realistic business plan.

C. Business plans and performance measurement

Recommendation I.15: That the government adopt an integrated framework for ministries' activities that better links planning, monitoring, reporting and evaluation to improve the management and accountability processes.

Recommendation I.16: That, as part of the framework, each ministry:

- prepare a three-year business plan that reflects the government's priorities;

- maintain the three-year outlook by updating its plan annually before the start of each fiscal year;

- specifically address in the plan the measurement of progress towards its stated goals and reasons for changes to its previous plan;

- outline in the plan what it believes to be suitable performance measures and targets at the ministry and program level, subject to review by a Legislative committee;

- include detailed spending and, if appropriate, revenue plans for the upcoming fiscal year and estimates of these for the following two years;

- explain in its plan the delivery structure to be used, including the roles, relationships and accountability of all entities that provide service on behalf of the ministry, and provide justification for this structure; and

- provide semi-annual summaries of progress for ongoing monitoring and appropriate action to improve performance.

Recommendation I.17: That government initiate a system of recognition and rewards in the public service to motivate effective and efficient behaviour, and remove current disincentives to such behaviour.

D. Legislative role

Recommendation I.18: That the requirement for business plans, as outlined in this report, at the government, ministry, and agency level, be legislated.

Recommendation I.19: That government have a review carried out with the goal of ending the current Estimates process, which is ineffective. This review, by either a special task force of the Legislature or an existing committee, should focus on an earlier and more useful debate of spending authority.

Recommendation I.20: That the special review consider the following additional suggestions from the Commission:

- an appropriate committee of the Legislature, which could be a renamed and re-defined existing committee, should be given the task of reviewing each ministry business plan before the start of the three-year planning cycle it covers;

- the committee should conduct reviews on a three-year rotational cycle (that is, look each year at the plans of one-third of ministries), with attention to past and planned outputs and outcomes, and be able to recommend changes to plans;

- in looking at each plan, the committee should be able to consult with the appropriate Minister and Deputy Minister, the Provincial Auditor, and others as needed;

- the committee should look at the ministry's proposed measures and targets for performance to make sure they are appropriate, well-designed and rigorous;

- committee staff should then monitor results on a semi-annual basis, and the committee should be able to require the Minister and/or ministry staff to appear before it as required; and

- spending authority should be secured immediately after the tabling of the Budget.

II. Financial reporting and accounting

A. Accounting basis and system

Recommendation II.1: That government adopt PSAAB standards for the Budget, related spending authority and updates on the fiscal situation.

Recommendation II.2: That government adopt one financial management and reporting system for all ministries, in place of the incompatible systems currently in use.

B. Financial reporting

Recommendation II.3: That government produce an annual report consisting of:

- financial statements similar to those currently produced as part of the Public Accounts, with the addition of a column showing the Budget plan; and
- a "management discussion and analysis" that includes financial and economic highlights and reports on performance against the goals set in the Budget and business plan at the start of the year.

A news release summarizing the annual report should accompany its publication.

Recommendation II.4: That government's annual report and the Public Accounts be presented no later than 120 days after the year end, but preferably within 90 days.

Recommendation II.5: That government produce quarterly financial statements, on the PSAAB basis, containing for each quarter:

- an updated fiscal forecast for the year, compared to the Budget plan for the year; and
- actual results for the current year to date, compared to year-to-date actual figures for the prior year.

The second quarter should also contain a revised economic forecast for the year and outline its impact on the year's fiscal forecast, and should provide an update of the economic forecast for the next two years.

Ontario Hydro and Workers' Compensation Board

Recommendation II.6: That government clarify the ownership of Ontario Hydro in order to end confusion in financial reporting.

Recommendation II.7: That government require the Workers' Compensation Board (WCB) to draw up, within the next year, a workable and credible plan to eliminate its existing unfunded liability. This plan should outline specific benchmarks at regular intervals; and the government should monitor the plan's progress to make sure corrective action is taken if it falls short of those benchmarks.

Recommendation II.8: That the present disclosure of the Workers' Compensation Board in the notes to the financial statements in the Public Accounts be improved by expanding it to include summary disclosure of the Board's balance sheet and its statement of operations and unfunded liability.

Recommendation II.9: That government review the current governance structure of the Workers' Compensation Board with a view to making it financially accountable, more effective, and better able to provide leadership.

Recommendation II.10: That the investment practices of the Workers' Compensation Board be reviewed independently to assess whether return on investments is appropriate to its long-term goals.

C. Accounting issues

Recommendation II.11: That, in absence of a PSAAB guideline in a specific area, government follow, in order of authority and depending on availability:

- accepted public-sector practice;
- generally accepted accounting principles in the Handbook of The Canadian Institute of Chartered Accountants (CICA);
- guidance from the CICA's Emerging Issues Committee; or
- accepted private-sector practice in the area.

Recommendation II.12: That government continue its accounting treatment of capital assets, which is generally to expense all spending on assets in the year they are bought or built, and follow those practices in the Budget and quarterly updates until PSAAB standards deal with capital assets. If and when PSAAB standards for capital assets are issued, government should adopt them.

Recommendation II.13: That, when reporting the impact of restructuring that involves reducing staff, government follow the guidance of the Emerging Issues Committee of The Canadian Institute of Chartered Accountants. In general terms this would mean accruing and expensing the costs at the time the restructuring decision is made.

Recommendation II.14: That government recognize all expenditures, including those related to downsizing or asset write-offs, in arriving at the annual deficit. It may disclose separately these and similar non-recurring costs.

Recommendation II.15: That the proceeds of asset sales or other transactions outside the normal course of business be included in the reporting of government's annual deficit and disclosed separately from ongoing revenues.

III. Crown agencies

A. Service delivery

Recommendation III.1: That government develop a management framework, based on the one outlined below, to determine which type of organization will deliver services most effectively and efficiently. This framework should specifically address the accountability issues that follow

from any special powers the particular organization is given, and require ongoing monitoring to ensure that any special powers are justified.

Government should use this framework to decide whether the structures and operations of existing organizations need to change to improve their performance.

Recommendation III.2: That when an agency is the organization used to deliver a government service, its business plans and published annual reports detail the costs and benefits of agency status. If the costs significantly outweigh the benefits over time, then government should conduct the activities through a ministry instead.

Recommendation III.3: That, where there are no overriding public-policy reasons for government ownership of an enterprise which could operate successfully in the private sector, the private sector carry out the activity instead.

Recommendation III.4: That government set out an accountability framework for all Crown agencies. The framework should require that agencies produce business plans, similar to those recommended for ministries, which set appropriate targets, report on results, and require ongoing monitoring. This framework should incorporate ongoing measurement of costs and benefits of agency status, as discussed in Recommendation III.2.

B. Accounting and accountability for existing agencies

Recommendation III.5: That government expense, in the year they are made, any financial contributions needed to establish or continue an enterprise's self-sustaining status.

Recommendation III.6: That, when an agency is classed as an enterprise on the basis of financial projections, it update those projections annually.

Recommendation III.7: That government write off, at the time of its decision, its investment in any agency that it judges to be no longer self-sustaining. The agency should then be reclassified and treated as a service organization.

Recommendation III.8: That, where an agency has both enterprise and service activities, the agency's own reporting clearly differentiate between these activities. Where it also acts as agent for government or other government agencies, the agency's financial statements should give appropriate note disclosure of its activities as an agent.

Recommendation III.9: That, when creating a new agency, government seek to give it responsibility for activities that are either enterprise or service in nature, but not both.

C. Recommendations specific to agencies

Recommendation III.10: That the Metro Toronto Convention Centre (MTCC), which now reports as an enterprise, provide annual updates of its business plan to support that continuing status..

Recommendation III.11: That updated projections and business plans use net income as defined under generally accepted accounting principles in assessing MTCC's self-sustaining status.

Recommendation III.12: That the province show as an expenditure in its financial statements its proposed $75 million non-repayable construction grant to MTCC when it is paid.

Recommendation III.13: That, when and if PSAAB adopts its proposed standards on Crown agency reporting, the Development Corporations of Ontario (DCO) be classified as a service organization.

Recommendation III.14: That the various regional agencies of the Ontario Development Corporations be combined and report as one entity.

Recommendation III.15: That the Ontario Financing Authority (OFA) retain its status as an agency and that, in order to strengthen its risk-management capability, it be given greater management and administrative flexibility and add outside directors to its board.

Recommendation III.16: That the board of directors of the OFA set over-all goals that are in line with its status as a government agency, and ensure that its risk-management policies in all its activities, including managing the Province's debt and investment portfolios, are consistent with those goals. The OFA should also ensure that its risk-management and

disclosure policies draw on the best practices of the financial community. The OFA's annual report should disclose its goals, policies and practices in detail, along with related targets, activities, and performance.

Recommendation III.17: That the Ontario Transportation Capital Corporation (OTCC) and government monitor regularly and assess at least annually OTCC's performance against projections to support its continuing status as a government enterprise, in view of the government's significant investment in OTCC and because of the uncertainty of OTCC's ultimate self-sustainability.

Recommendation III.18: That the Ontario Clean Water Agency (OCWA) show, in a detailed business plan, the measures that will be required for it to remain self-sustaining as it faces more private-sector competition in its operating activities and lessens its dependence on profits from its financing activities, which are now the source of its self-sustaining status.

Recommendation III.19: That government consider granting OCWA more management and administrative flexibility to allow it to operate more competitively.

Recommendation III.20: That the Ontario Realty Corporation (ORC), which now reports as a government enterprise, be treated as a service organization instead. It should retain its status as an agency in order to draw on outside expertise in managing the Province's real estate assets.

Introduction

To find ways of "restoring credibility and confidence" in the financial reporting of a $50-billion-a-year enterprise is no small task. When the enterprise in question is a provincial government that shares responsibility for educating our children, taking care of our sick, policing our communities and preserving our quality of life in many other ways every day, it becomes truly daunting.

The Ontario Financial Review Commission faced exactly that task three months ago. The eight members — six drawn from the accounting profession and two from the broader business community — were given a mandate that was both sweeping in its generality and exacting in its detail. In broad strokes, Ontario Finance Minister Ernie Eves asked that the Commission:

- come up with a framework for forecasting revenues and planning spending that was prudent and realistic;

- look at ways of improving financial management of government; and

- explore how government could report on its financial position more quickly and more meaningfully.

Tied to these higher-level goals were specific requests:

- assessing whether government should adopt the same accounting standards in its Budget and Estimates that it now uses in its year-end financial statements;

- reviewing the reporting practices and activities of several Crown agencies; and

- studying the accounting treatment of various provincial activities.

Appendix I, Mandate and background, gives the exact terms of reference for the Commission and other information.

Financial situation adds an element of urgency

The mandate would have been formidable at any time, but Ontario's financial situation added an element of urgency.

The Province's spending has doubled in the last ten years; its debt has tripled and is now approaching $100 billion. More troubling, interest costs are each year consuming a larger portion of the Province's spending. Interest costs have more than doubled in the past five years and are expected to total $8.8 billion in the current year, or almost 17 cents of every dollar of operating spending. Money that is spent on interest is not being spent on education, health care, or any other program.

This situation has made deficit reduction the most prominent of the provincial government's priorities. It has identified the need to reduce the interest burden so that services are not crowded out. To do that, spending must be brought into line with revenues. This means the public sector must identify which of its services and programs best meet the needs of Ontarians, eliminate those that no longer work, and learn to provide remaining core services with fewer resources.

This was the backdrop to the Commissioners' task. In approaching it, they worked within their mandate as advisers on financial management. In their deliberations they relied on discussions with public servants from Ontario and elsewhere, the practices of other jurisdictions, and expertise on financial management and reporting within and outside the public sector. Appendix II outlines in more detail how the Commissioners carried out their work, and includes the names of those who appeared before it or made written submissions.

Because the urgency of the task had dictated a three-month mandate, the Commission focused on identifying problems, making firm suggestions where solutions were straightforward and laying out a path for further work on more complex issues.

Its recommendations fall into three main areas, which are reflected in the three major sections of this report:

I. Planning
II. Financial reporting and accounting
III. Crown agencies

The Commission recognizes that some of its recommendations may overlap with initiatives already under way in government.

Impediments to the best use of resources

Much of what the Commission learned in its review caused it concern. The Ontario public service employs tens of thousands of people in hundreds of offices across the province. Like any such sprawling organization, it presents monumental problems of management, especially when circumstances demand rapid change. Added to this is the essential dilemma of the public sector: the difficulty, without the long-term discipline of market forces, of ensuring that resources are used efficiently and effectively.

The Commission believes that competent and hard-working public servants throughout the system are trying to find more efficient ways of organizing and doing their work, and are trying to build on what they have learned to improve performance in future.

But they are hampered by a lack of tools, systems and structures. They are held back by an existing system that may frustrate efforts to detect waste, and can discourage efficiency. And sometimes they are at work in an organization whose very structure is an obstacle to its goals.

A new framework for financial management

This report lays out a very different way for government to operate in Ontario: one that no longer focuses on process, but instead sets the sights of the public sector on constant improvement in performance. In so doing, it helps government to meet its urgent priority of debt and deficit reduction.

The Commission's first recommendation gets to the heart of that notion, by proposing a prudent planning framework that will keep government to its targets and make better use of its resources.

The Commission believes the best way to impose discipline on the operations of government is to create better links among planning, monitoring, reporting and evaluating performance.

Properly applied, these links create a continuous cycle of improvement. Previous results are measured and assessed against established goals, and these results provide the basis for plans that outline new goals and new ways of reaching them more effectively and efficiently.

Ongoing monitoring ensures that managers can take prompt corrective action if necessary. Providing for contingencies in the plan helps to cushion the impact of unforeseen events. Timely information on results, including an assessment of whether there is a continuing need for the program, helps to build improvement in the next year.

Reporting completes the cycle by telling the Legislature and the people of Ontario about government's progress towards its goals. In order to strengthen accountability and improve results, each step — planning, monitoring, reporting and evaluating — should take place as early as possible.

The balance of this report presents the Ontario Financial Review Commission's advice on the elements of financial management that will create such a cycle of constant improvement in the public service. Specifically it addresses:

- the need for business plans for government as a whole, its ministries and agencies;

- the need to build a contingency fund into the Budget in case of worse than forecast economic conditions;

- the need to set rigorous goals for performance, report on results, and use that information to enhance the next year's performance;

- the need to set and be measured against targets for debt and deficit reduction;

- the need to provide incentives for improvement, and remove the current disincentives;

- the need to allow for a meaningful and informed Legislative review of ministries' business plans before debating spending authority, because the Commission believes the Legislature is the proper forum for public accountability;

- the need to have an integrated financial management and reporting system for all government activities, and to set consistent planning and reporting standards;

- the need to speed up the planning, monitoring, reporting and evaluating cycle so that plans are reviewed in time to make useful changes, and results are out earlier; and

- the need for Crown agencies to justify, on an ongoing basis, their existence and powers.

Ambitious agenda for profound change

These words may make the process sound relatively simple — if so, they are deceptive. Commissioners realize that they have set out a very ambitious agenda for profound change. And they are even more acutely aware that in times of fiscal challenge, such as Ontario now faces, response focuses on coping strategies. When savings have to be found quickly and there isn't time to think ahead to the long-term implications, decisions may prove to be ultimately counter-productive.

Ontario's government has stressed the need to move beyond such coping strategies to a true restructuring of the public sector. The Commission offers this blueprint of the changes in financial management that would speed that restructuring.

Deep and lasting change does not happen overnight, or even over one planning and reporting cycle. But adoption of many of the recommendations, such as those on business planning and

accounting standards, can begin immediately and start the shift in direction that this exercise demands. And where others — such as making the debate on spending more timely and meaningful — will require discussion by members of the Legislature, the Commission urges immediate action.

The Commission was asked to estimate the costs of putting its recommendations in place. While it is impossible to provide exact costs on any recommendation, it is clear that some — such as extending its current reporting standards to the Budget — could be adopted at minimal cost. Others, especially around developing a better framework for planning, will call for greater investment initially and over time. And some recommendations — such as replacing the current incompatible accounting systems with an integrated financial management and reporting system — will require a significant initial outlay. The Commission believes, however, that all recommendations will provide returns over time, from better use of public resources, that far outweigh the costs.

In a sense, this discussion underlines a recurring theme of the report: to replace short-term decision-making with behaviour that weighs the long-term benefits of an action against all the costs. Management in government needs to shift its focus to a longer time horizon, and must have the tools that go with that shift.

Finally, the Commission believes the critical success factor to the framework it has outlined will be leadership from the top to drive cultural change throughout the public sector. For that reason it urges the Minister of Finance, his colleagues in Cabinet and the Legislature, and senior management of the public service to show leadership by drawing up a plan for immediate action on this report.

I. Planning

In looking at planning, the Commission's specific task was:

- to examine and report on options to provide Ontario with a prudent planning framework for the medium-term plan and a realistic budgeting framework for expenditure planning, including consideration of the use of contingency provisions for economic assumptions, revenue variations and statutory spending.

In its deliberations, the Commission found that this element of its mandate was linked to others. Specifically, the Commission was:

- to examine and report on options for ensuring that timely and relevant information is available to the government to support decision-making, and to the public, to improve accountability; and

- to examine and report on options for improving the financial management and reporting of government, including the timeliness and content of reports issued by the government (the Estimates process, Budget, quarterly reports, annual reports of Crown agencies, and Public Accounts of Ontario).

This section deals with the recommendations on these related matters, under these general headings:

A. Framework for fiscal planning

B. Better fiscal management and revenue forecasting

C. Business plans and performance measurement

D. Legislative role

This section of the Commission's report deals mainly with reporting

as an integral part of the cycle of planning, monitoring, reporting, evaluating and using results to improve future performance. Section II deals with financial reporting, including accounting issues.

A. Framework for fiscal planning

Recommendation I.1: That government adopt a prudent planning framework which:

- encourages cautious forecasting and better expenditure planning;
- monitors results for the purposes of taking any corrective action that is needed; and
- includes provisions for unexpected changes in its economic outlook

in order to ensure that it meets or exceeds its deficit and debt reduction targets in the most effective and efficient way.

Discussion: A prudent planning framework is one that minimizes the risk that goals will not be achieved, and builds in allowances for unforeseen events. It is an essential element in improving government's credibility and restoring public confidence in financial management.

For these reasons, the Commission has set this goal out as its first recommendation. The implications for government over-all, for revenue forecasting and fiscal management, and for planning at the ministry and program level are outlined in the individual recommendations that follow.

Recommendation I.2: That government present a three-year business plan as part of its annual Budget. This business plan should:

- outline goals and priorities in enough detail that ministries can use it as a basis for their business planning, as outlined in Recommendation I.16 below;
- explain government's targets for effective and efficient performance and how it will measure progress towards them;

- report on progress toward established goals and explain the reasons for changes from its previous plan; and

- outline the revenue, expenditure and economic projections for the upcoming year and the following two years.

Discussion:

The Commission believes the Budget should include an annual business plan for the government as a whole. It should set out the government's priorities, outline specific goals for its over-all performance, and require measurement of progress towards those goals.

Setting goals, explaining how progress will be measured, and reporting on the results with the aim of further improvement are all elements of *performance measurement*, which is discussed in more detail in Appendix III.

The Commission believes very strongly that performance measurement is essential to making the public sector more effective and efficient. In a government context, these terms can be defined as follows:

Effective: A program or service is effective if it produces the outcomes the government wants, and prevents or minimizes any unintended negative consequences.

Efficient: The program or service is efficient if it uses the least costly mix of inputs (staff, physical assets, and other resources) to produce the desired level of outputs.

Setting goals focuses attention on the outcome that government wants. Using those goals to set measurable targets focuses management attention on both outcomes and outputs, and how to achieve those most cost-effectively over the long term.

A three-year time horizon, focusing in detail on the upcoming fiscal year, is important to encourage longer-term strategic planning. At present, the Budget's focus is almost entirely on the current year.

This does not give government the opportunity to outline the expected results of longer-term initiatives.

B. Better fiscal management and revenue forecasting

Recommendation I.3: That government return to the practice of tabling its Budget, which would now include a business plan, before the start of the fiscal year.

Discussion: This timing would reduce or eliminate uncertainties for ministries as they enter a new fiscal year, and allow for better management of expenditures. Moving the Budget date to before the start of the fiscal year would allow for more useful debate of spending authority and more meaningful quarterly reporting. It would also improve public accountability.

While the change would require closer harmonization of Ontario's budget with that of the federal government, the Commission does not believe this is an insurmountable obstacle.

Recommendation I.4: That government provide, in its annual Budget, deficit targets (and underlying fiscal forecasts) for the upcoming and following two years, and that it measure itself against these targets in the subsequent Budget and other reports to the people of Ontario.

Recommendation I.5: That government provide in its annual Budget a longer-term view of its debt reduction targets, and that it measure and report on its progress towards those targets in its subsequent Budget and other reports.

Discussion: In line with the discussion of Recommendation I.2, government should set goals and report on its progress towards them. This report does not identify any specific areas for goal-setting except on debt and deficit reduction. The Commission believes that the seriousness of the Province's current financial situation dictates that targets must be set not just to stop the growth of debt, but ultimately to begin paying down existing debt.

The Commission acknowledges that government has outlined its intention to balance the Budget. That intention should be reflected

in the Budget and conform to the three-year framework outlined in Recommendation I.2.

Government must also develop a longer-term plan to reduce the outstanding debt level once that first goal has been achieved. Progress toward both goals must be reported annually.

Recommendation I.6: That the Budget contain commentary on socio-economic trends that are likely to have a significant longer-term impact on the Province's fiscal health, and outline measures that may be needed to deal with those.

Discussion: Government needs to take a longer view of changes in the population and economy of Ontario in order to plan better. While detailed planning for such eventualities is impossible, the Budget should outline the government's view of their potential impact and give a general sense of how resources will have to shift in order to deal with them. (One example might be an ageing population and its impact on health care.) This discussion will help to focus on the need to have plans in place for situations where there may be long lead times in responding.

Recommendation I.7: That government's fiscal forecast be biased towards the cautious end of the range of forecasts that are consistent with its economic forecast.

Discussion: A prudent forecast cushions the impact of an unexpected change during the year in planned revenues or spending. This helps to limit the risk of increased debt or in-year cuts to planned spending.

The history of public debt interest forecasts in Ontario shows that the forecast of this element of the fiscal plan has generally erred on the side of prudence — that is, the actual figure has usually been slightly less than the projection. The Commission believes it is appropriate to continue this approach and extend it to forecasting of other key elements of government revenues and expenditures.

Recommendation I.8: That the Budget set out a contingency fund exclusively to cushion fiscal targets against the impact of negative unforeseen economic changes. The government should apply any part of the fund which has not been spent by year-end to reducing the deficit and debt.

Discussion:	Because forecasting can rely only on information that is known at the time of the forecast, the contingency fund mitigates the effect of an unexpected economic change. The fund, which would expire at the end of every fiscal year, would be available only to deal with the consequences of economic conditions that put the deficit target into question. These might include: weaker revenues because of an unforeseen economic slow-down; a higher social-assistance caseload arising from the same source; or higher debt interest costs because of an unforeseen increase in interest rates. The fund would not be available for spending pressures or revenue shortfalls arising from other sources. To enforce that prohibition, government must disclose in the subsequent Budget and other financial reporting how it has been used.
Recommendation I.9:	That, where there is disagreement or uncertainty over the methodology for calculating future federal transfer payments, Ontario adopt for the purposes of fiscal planning the most prudent methodology.
Discussion:	This recommendation does not address the validity of any position Ontario may take in negotiations over transfer payments. It addresses the importance of a prudent fiscal plan.
Recommendation I.10:	That the Ministry of Finance each year collect and evaluate a list of contingent expenditures and other latent costs throughout government that might increase spending in the next several years; and that the Ministry establish a clear plan for dealing with them.
Discussion:	The Ministry of Finance, which is responsible for reporting on the Province's financial situation, must have full information on any possible future event that may increase government's costs, even if it is not an item which would require reporting under current accounting standards. Contingencies that do currently require disclosure, and should continue to be reported, include such items

as legal cases. Legal proceedings under way may result in costs to government, although the exact amount and timing are not known.

Items that do not currently require disclosure include deferred maintenance costs, and obligations that government may face as a result of public pressure even where there is no legal requirement for it to act. While these do not have to be disclosed, the Commission believes the Ministry must track them in order to assess the impact they may have on future spending.

Recommendation I.11: That government use significant unanticipated revenues to reduce the deficit and debt, and that this be clearly disclosed in financial reporting.

Discussion: Ontario's present fiscal situation demands that government focus its attention on reducing its annual deficit and controlling the growth of debt. In order to bolster its credibility on this priority, government should set in its Budget plan a deficit target based on a prudent estimate of revenues from its normal course of business.

It should not allow spending to rise from the planned level if revenues are higher than anticipated. Government should use the funds to lower the deficit for the year, which will also make debt lower than it would otherwise have been.

Unanticipated revenues can arise from a number of sources, including: higher taxes because the economy was stronger than forecast; larger-than-expected profits from a Crown agency; or a transaction, such as an asset sale, outside the normal course of business. Unanticipated revenues from any government transaction outside the normal course of business should be disclosed separately in reporting, as outlined in Recommendation II.15.

Recommendation I.12: That the Ministry of Finance focus its efforts to improve its revenue forecast on getting better information about its main sources of revenue: personal income tax, corporations tax and retail sales tax.

Discussion: Government should focus most of its forecasting efforts on the major components of its revenue, particularly where there can be large improvements for relatively small investments.

From discussions with Ministry staff and others, the Commission believes that the following internal measures would significantly improve forecasting capabilities for these revenue sources:

- closer co-ordination between the Ministry's revenue forecasting and its tax-collection functions;

- regular direct interviews with representatives of firms in key sectors of the economy to help anticipate economic and revenue trends;

- improved monitoring of industrial sectors for corporations tax and retail sales tax forecasts;

- addition of further new data, such as the outstanding stock of corporate losses, to its corporations tax database; and

- further refinements to its forecasting models.

The Ministry should also pursue improvements to forecasts of more minor revenue sources where it is cost-effective to do so.

Recommendation I.13: That the Ministry of Finance take steps to create a fuller and more open system of personal income-tax information sharing with the federal government, and pursue as a matter of urgency its continuing requests for monthly information on source deductions.

Discussion: The federal government collects personal income tax on behalf of Ontario and eight other provinces. The federal government makes payments to the participating provinces during the year according to a formula, with adjustment payments being made in the subsequent year.

The federal government does not currently share information on personal income-tax source deductions, installment payments and refunds, but those data are available to federal officials to make in-year adjustments to their forecast. Having access to this information would allow provincial Finance Ministry staff to improve their forecast of this important source of provincial revenue. Better forecasting would improve financial management.

Recommendation I.14: That forecasts of revenues from any new non-tax initiative be supported by a prudent and realistic business plan.

Discussion: Revenue forecasts should not include revenues from any new non-tax initiative until a firm policy decision has been taken to launch the initiative. Because of the inherent uncertainty of the revenues a new initiative will generate, any projections must be based on a defensible business plan.

These issues are addressed by the Commission's proposed framework for review of ministry business plans, outlined in the following section. Business plans would include discussion of any non-tax revenue initiatives.

C. Business plans and performance measurement

Recommendation I.15: That government adopt an integrated framework for ministries' activities that better links planning, monitoring, reporting and evaluation to improve the management and accountability processes.

Discussion: A framework that draws together elements that are frequently unrelated at present will result in better planning, greater accountability and improved performance.

An important element of planning and evaluating is making sure that the structure of the organization is best suited to the outcome the government is seeking. Section III of this report, Crown agencies, addresses the question of appropriate structure.

Recommendation I.16: That, as part of the framework, each ministry:

- prepare a three-year business plan that reflects the government's priorities;

- maintain the three-year outlook by updating its plan annually before the start of each fiscal year;

- specifically address in the plan the measurement of progress towards its stated goals and reasons for changes to its previous plan;

- outline in the plan what it believes to be suitable performance measures and targets at the ministry and program level, subject to review by a Legislative committee;

- include detailed spending and, if appropriate, revenue plans for the upcoming fiscal year and estimates of these for the following two years;

- explain in its plan the delivery structure to be used, including the roles, relationships and accountability of all entities that provide service on behalf of the ministry, and provide justification for this structure; and

- provide semi-annual summaries of progress for ongoing monitoring and appropriate action to improve performance.

Discussion:

As part of their efforts towards better financial management and use of public resources, governments are focusing on better ways of delivering services. In particular, they are taking steps to plan their activities better and use information about past performance to find improvements in future.

A framework that links the resources that go into government activities to the cost and quality of results is essential to this process. Success depends on timely and accurate information; consistent measurement of outputs and outcomes; and action based on those measurements.

The three-year time horizon both dovetails with the outlook period recommended for the government's over-all business plan included in its Budget, and encourages longer-term strategic planning. Making the plan available to a Legislative committee that later reviews performance against plan is essential to improving performance and strengthening accountability.

A performance measurement survey of ministries carried out at the request of the Commission reported widespread belief that information on performance and effectiveness is critical to governing ministries. A side benefit of the survey was that it stimulated further thinking in the ministries about the subject.

The Commission does not intend to discuss performance measurement in detail, either for government as a whole or for individual ministries, programs or agencies. There is already a body of expertise in this area within the provincial government and other organizations. Appendix III gives examples of the general principles of performance measurement.

Recommendation I.17: That government initiate a system of recognition and rewards in the public service to motivate effective and efficient behaviour, and remove current disincentives to such behaviour.

Discussion: The current environment in government does not support the cultural change that is needed to make the public sector more efficient and effective. One major stumbling block is the budgeting process. At present, managers who come in under budget because of efficiency may be "punished" as their base budget for the next year may well be lowered, without regard to need. Other programs may continue to receive funding even though the program no longer meets an identified need, or meets needs inefficiently. At the ministry level, because cuts are often applied uniformly, a ministry which is operating efficiently will face the same proportionate spending cut as a ministry which may be highly inefficient.

This reflects a failure to set consistently rigorous standards for expected ministry and program performance. Existing financial-management and reporting systems in ministries are incompatible, so it is difficult or impossible to get data to compare performance on a consistent basis.

The Commission believes that a better planning and performance measurement system will help to set budgets that reflect the goals of government, the objectives of programs, and the most efficient and effective way of delivering service. Moving to a single financial management and reporting system, as discussed in Recommendation II.2, is vital to this effort and to measuring the results consistently.

But removing disincentives is only one part of improved performance. To maximize efficiency, government should provide financial incentives to recognize cost savings which staff find.

The Commission is aware of the need for careful design of such a program. First and foremost, cost-saving measures must ensure that the organization still provides the planned level and quality of service (or improves on it). As well, careful thought should be given to how savings will be measured.

These caveats aside, there is evidence of interest in this approach elsewhere, as outlined in Appendix III, which also refers briefly to an existing model.

A properly designed incentive system would not increase government's costs or reduce service. On the contrary, the Commission believes it would result in significant savings by encouraging employees at every level to find ways of working more cost-effectively.

D. Legislative role

Recommendation I.18: That the requirement for business plans, as outlined in this report, at the government, ministry, and agency level, be legislated.

Discussion: The likelihood that government and the public will capture the full benefits of the business planning exercise outlined in this report increases when there is clear support from the highest levels. Legislating the requirement sends a strong signal of this support. Appendix V summarizes similar legislation from the Province of Alberta.

Recommendation I.19: That government have a review carried out with the goal of ending the current Estimates process, which is ineffective. This review, by either a special task force of the Legislature or an existing committee, should focus on an earlier and more useful debate of spending authority.

Recommendation I.20: That the special review consider the following additional suggestions from the Commission:

- an appropriate committee of the Legislature, which could be a renamed and re-defined existing committee, should be given the task of reviewing each ministry business plan before the start of the three-year planning cycle it covers;

- the committee should conduct reviews on a three-year rotational cycle (that is, look each year at the plans of one-third of ministries), with attention to past and planned outputs and outcomes, and be able to recommend changes to plans;

- in looking at each plan, the committee should be able to consult with the appropriate Minister and Deputy Minister, the Provincial Auditor, and others as needed;

- the committee should look at the ministry's proposed measures and targets for performance to make sure they are appropriate, well-designed and rigorous;

- committee staff should then monitor results on a semi-annual basis, and the committee should be able to require the Minister and/or ministry staff to appear before it as required; and

- spending authority should be secured immediately after the tabling of the Budget.

Discussion:

The current framework does not promote good planning or ensure the best allocation of resources. The Estimates, normally tabled five days after the Budget, outline spending plans on a detailed basis for each ministry. Each ministry also tables, with the Standing Committee on Estimates, briefing books to support the Estimates.

Ministry submissions to Management Board Secretariat, which form the basis for the government's spending plans outlined in the Budget and Estimates, currently require brief business plans. However they are not part of the material that goes to the Standing Committee.

The Estimates debate usually provides the only opportunity for the Legislature or a committee to look at spending plans in detail. However, several factors make this process less effective than it might be:

- the debate takes place well into the year in which the spending takes place;

- expenditures are not laid out in a way that promotes informed debate about how well they will meet ministry objectives; and

- there is no subsequent review of plans or performance.

A process that uses ministry and agency business plans as the first step in managing expenditures will help to make debate more useful. Assessing plans before the start of the fiscal year would allow for meaningful input. This would help to shape the Budget, which outlines goals and policies. It may then be appropriate to debate legal spending authority immediately after the Budget, instead of through the Estimates process.

The Commission recognizes that this recommendation has implications for the legislative process. For that reason it is recommending review by a legislative body. However, it believes that the benefits of such a change, in terms of timeliness, informed debate, greater accountability and more efficient government, far outweigh any potential drawbacks.

The legislative review suggested by the Commission could also deal with the issue of how the three-year rotation of ministry plans would be phased in.

II. *Financial reporting and accounting*

The Commission was asked to look at the desirability of the government adopting in the Estimates and the Budget the accounting standards recommended by the Public Sector Accounting and Auditing Board (PSAAB) of The Canadian Institute of Chartered Accountants. PSAAB standards are currently used for the financial statements in the Public Accounts. More information on PSAAB appears in Appendix VI.

The Minister of Finance also asked the Commission to study specific accounting issues, some of which PSAAB has not yet ruled on.

In addition, the Commission was asked to study ways of improving the Province's financial reporting and make it more timely.

Using the same standards for budgeting and reporting is important because it makes it easier to compare planned results with actual results. Timely financial reports allow problems to be identified promptly and help to improve the next year's plans and performance. These factors also help to improve confidence and credibility in reporting.

Recommendations in this section fall under three headings:

A. Accounting basis and system

B. Financial reporting

C. Accounting issues

A. Accounting basis and system

Recommendation II.1: That government adopt PSAAB standards for the Budget, related spending authority and updates on the fiscal situation.

Discussion: The Province used the "modified cash" basis of accounting for both the Budget and the Public Accounts until the 1993-94 fiscal year.

At the start of that year, the Budget presented figures using the same principles it had used in previous years. The financial statements in the Public Accounts, however, changed to the principles of "accrual and consolidation" in presenting the results at the end of the year.

The Provincial Auditor had previously urged the Province to make this change to the Public Accounts, and also asked that the same standards be used in the Budget. Accrual and consolidation are recommended by PSAAB, which suggests appropriate accounting and auditing standards for Canada's public sector.

Adopting Recommendation II.1 means that the Budget will present an estimate of expected revenues, spending, and the deficit at the start of the year using exactly the same accounting practices that the Public Accounts will use at its end. Events will be described and reported the same way right through the year.

As a result, future differences between the deficit outlined in the Budget and what is reported in quarterly updates or the Public Accounts will result from changes in planned revenue or spending. In other words, differences in the deficit number will come only from differences between the Province's plan and actual events during the year. There will be no differences caused by different reporting of the same events.

Adopting PSAAB will require adjustments to the current Budget presentation to reflect the accrual of several items, and the consolidation of agency activities.

Having the Budget, quarterly updates and annual financial statements on the same accounting basis will make it easier to compare plans outlined in the Budget with actual results during the year and at year-end. Being able to make meaningful comparisons is very important for government, the public and the media.

Moving the Budget and quarterly updates to the PSAAB basis will also improve confidence in provincial financial reporting by:

- eliminating confusion that results when the Budget is

presented in a way that is different from the Public Accounts; and

- using standards set by an outside group of experts for both planning and reporting purposes.

At present, there are numerous accounting systems in place throughout the government. They are geared to the cash basis of accounting. In preparing the financial statements in the Public Accounts, which present aggregate figures, Ministry of Finance staff work with other ministries to estimate accruals and consolidate various agencies, boards and commissions.

The Commission asked Ministry staff to estimate the costs of going through this process for the Budget and quarterly updates, which also present aggregate figures. The Commission does not believe that these costs will be substantial.

Recommendation II.2: That government adopt one financial management and reporting system for all ministries, in place of the incompatible systems currently in use.

Discussion: At present, almost every provincial ministry uses a different accounting system. Each system was originally bought from one of five suppliers. However, ministries have made customized changes to standard software so that there are now 17 systems.

This incompatibility hampers the preparation of detailed financial information, such as the current Estimates, on the PSAAB basis. The Commission believes as a matter of principle that the Estimates (or any other detailed financial information that supplements or replaces the Estimates, as outlined in Recommendations I.19 and I.20) should be prepared on the PSAAB basis. This would make the entire process of planning and reporting consistent.

Making this change with current accounting systems in place would be time-consuming and far more costly for such detailed financial information than for the Budget and updates. Avoiding these unnecessary expenses provides, in and of itself, a strong case for upgrading and unifying the Province's accounting systems.

But having one financial system for the Province offers financial management benefits far beyond allowing detailed financial information to be prepared on the PSAAB basis at a reasonable cost.

A single financial management and reporting system would:

- allow on-line access to central data, making it possible to get timely and accurate information to support decisions and find operating efficiencies;

- make ongoing monitoring of progress towards business-plan goals easier, faster and more relevant, allowing for quicker response when it is needed;

- reduce the costs and technical problems related to introducing performance measurement across government, as discussed in Section I;

- make reorganization and restructuring, such as amalgamating ministries or reassigning staff, faster and easier;

- end duplication of effort and data storage among ministries;

- enable the government to adopt new information technologies much more quickly, both for internal purposes and to allow better access to public information for those outside government;

- enable the government to capture savings from economies of scale that would follow from centralized purchasing and other processes;

- end the need to prepare 17 versions of any new technology being adopted government-wide and allow for common training programs, which would speed improvements and reduce costs;

- allow the Public Accounts to be prepared much more quickly and with fewer staff resources; and

- significantly reduce current high systems-maintenance costs.

Ontario has been slower than other jurisdictions to pursue these benefits: the Commission was told that, of the federal government and 10 provinces, Ontario is currently the only one that is not either currently using, or moving toward, a unified financial system. One financial management and reporting system is also standard in many large private-sector organizations.

The change has cost implications as well as benefits. An existing Ministry of Finance study recommends one financial management and reporting system for the Province and estimates considerable net monetary benefits over time. This study should be reviewed externally to quantify those costs and savings and, equally important, assess the benefits for financial management. Because of the potential benefits, the Commission sees improved financial management, reporting and accountability as being closely linked to one financial system.

The change also represents a broader need of the Province to move more quickly in adopting new technologies that improve service and accessibility of information and lower costs. While it has made forays into such areas as accepting credit and debit cards as payment and distributing information on the Internet, the Province appears to have invested less in new technology than have most large private-sector organizations. Adopting a single financial management and reporting system will improve availability of central information and will encourage a culture that embraces new technology more readily.

Introducing integrated accounting systems for the Province would be a major undertaking. In that context, the costs of an external review to ensure that expected benefits are captured would not be significant. The Commission believes that benefits will be maximized and costs minimized by buying and adapting existing software rather than designing a new system from the ground up.

Without this change, it will be very difficult to prepare the Estimates or other detailed material on the same PSAAB basis as the Public Accounts, Budget and updates. Failing to do so reduces

accountability and increases the potential for inefficient allocation and use of scarce resources.

B. Financial reporting

Recommendation II.3: That government produce an annual report consisting of:

- financial statements similar to those currently produced as part of the Public Accounts, with the addition of a column showing the Budget plan; and

- a "management discussion and analysis" that includes financial and economic highlights and reports on performance against the goals set in the Budget and business plan at the start of the year.

A news release summarizing the annual report should accompany its publication.

Discussion: Current financial reporting for Ontario is very difficult for the non-technical reader to understand. The Public Accounts consist of three numbered volumes, which are currently presented on a modified cash basis. The "Financial Statements," a smaller volume of roughly 30 pages which is also part of the Public Accounts, contained for the 1994-95 fiscal year:

- pie charts showing sources of revenue and major spending categories;
- a management representation;
- the report of the Provincial Auditor;
- summary of significant accounting policies;
- financial statements on an accrual and consolidation basis; and
- notes and schedules to the statements.

The statements compare actual results for the year to actual results for the previous year. There is no comparison to the Budget plan, nor are there any broad measures of fiscal and economic performance.

The Commission believes that the annual report should use the

material in the financial statements as the starting point in developing a document that reports in a meaningful way on the goals the government has set for itself.

The major step in improving the current reporting is to add a "management discussion and analysis" of results, which is simply narrative that goes with the financial statements. This should:

- be written in a way that is clear, straightforward, and easy for a non-technical reader to understand;
- take no more than 10 to 12 pages;
- include summary financial highlights; and
- outline, in both words and graphics, the performance of key indicators such as economic growth, the annual and accumulated deficit as a per cent of GDP, public debt trend analysis, tax rates, and so on.

All performance measures should be reported against the goals set in the Budget for the year the annual report covers.

In the narrative as well as the financial statements themselves, all results should use a three-column format that compares actuals to previous-year actuals and to the Budget plan.

Recommendation II.4: That government's annual report and the Public Accounts be presented no later than 120 days after the year end, but preferably within 90 days.

Discussion: At present, the Public Accounts normally appear within six months of the end of the fiscal year. This means that up to 18 months may have elapsed between the Budget that outlined plans for the fiscal year, and the release of audited results for that year. The Commission believes that this period is far too long to promote accountability.

The current incompatible accounting systems within the Ontario government make it very difficult to prepare the Public Accounts earlier. For that reason, the Commission sees this recommendation

as closely linked to Recommendation II.2 on adopting a single financial management and reporting system for government.

Recommendation II.5: That government produce quarterly financial statements, on the PSAAB basis, containing for each quarter:

- an updated fiscal forecast for the year, compared to the Budget plan for the year; and

- actual results for the current year to date, compared to year-to-date actual figures for the prior year.

The second quarter should also contain a revised economic forecast for the year and outline its impact on the year's fiscal forecast, and should provide an update of the economic forecast for the next two years.

Discussion: For government reporting, the Commission accepts that the focus during the year should be updating the deficit forecast for the year. In-year reporting should therefore follow the current practice of updating the fiscal forecast as needed each quarter. However, the Commission also feels that adding year-to-date actuals as compared to the previous year would provide useful new information.

The quarterly statements should follow PSAAB in order to be consistent with other planning and reporting. The Commission acknowledges that this will require estimates of accruals that are less certain than they might be at year-end. However, the value of consistent reporting outweighs the possible lower accuracy of the estimated amounts.

Under the current usual practice of tabling the Budget in April or May, the first quarter update is of minimal use because of the short time between setting out a firm plan and trying to measure progress on it. Moving the Budget tabling to before the start of the fiscal year, as the Commission has recommended, should make the first-quarter figures more useful.

A mid-year update of the economic forecast for the current year and the two subsequent years is valuable both to show any in-year

impacts of changed economic conditions and to focus attention on their longer-term effects.

As the Commission has recommended for the annual report, the reporting should use clear language that non-technical readers can understand.

Ontario Hydro and Workers' Compensation Board

Section III of this report deals with a request that the Commission review specific Crown agencies. While reviewing the Province's financial reporting in connection with another aspect of its mandate, the Commission asked for more information on two other provincial entities, Ontario Hydro and the Workers' Compensation Board. Discussions, which focused mainly on the treatment of the two entities in the Province's financial statements, gave rise to the following five recommendations.

Ontario Hydro

Recommendation II.6: That government clarify the ownership of Ontario Hydro in order to end confusion in financial reporting.

Discussion: The provincial government set Ontario Hydro up in 1906 by amalgamating a number of municipal electric utilities under the Power Corporation Act. This Act does not specify the ownership of Hydro.

At present the Province guarantees the debt of Ontario Hydro, but does not include an investment in Hydro in its financial statements. Hydro's activities are reported through a note to the statements (note 5, in the statements for the year ended March 31, 1995). While the Commission agrees with the present reporting of this agency, it does have some concerns which the recommendation reflects.

Under the Power Corporation Act, the revenues of Hydro are to be applied to cover its costs of operations, including provision for debt retirement. It appears that the long-term intent of the Act is that Hydro is to generate, supply and deliver electric power throughout the province at cost.

During its deliberations, the Commission became aware of differing views as to the ownership of Hydro. Some believe the Province owns Hydro; others feel it is owned by electric power consumers. Many of the municipal electric utilities (which buy power from Hydro's grid for local distribution) reflect an investment in Ontario Hydro on their annual balance sheets at carrying values that Hydro supplies.

To help ensure accurate reporting at all levels of government, government should clarify the ownership of the equity, if any, of Ontario Hydro.

Workers' Compensation Board

Note: These recommendations were drawn up independently of, and prior to, the tabling of a bill concerning the Workers' Compensation Board on November 1, 1995.

Recommendation II.7: That government require the Workers' Compensation Board (WCB) to draw up, within the next year, a workable and credible plan to eliminate its existing unfunded liability. This plan should outline specific benchmarks at regular intervals; and government should monitor the plan's progress to make sure corrective action is taken if it falls short of those benchmarks.

Discussion: The Commission is deeply concerned about the WCB's present unfunded liability, which amounted to $11.4 billion at December 31, 1994. The absence of a plan for dealing with the unfunded liability creates confusion as to the proper financial reporting of the WCB's unfunded liability in the Province's financial statements.

The government appears to have a role in setting or influencing benefits, coverage and premiums. In view of that, it is unclear to the Commission whether this unfunded liability could become an obligation of the government in the event the WCB, which operates as a Trust on behalf of employers and workers, was unable to meet its obligations. The government's obligation could arise on political or moral grounds.

The issue must be clarified because the impact on the Public Accounts of Ontario of inaction could be severe. Moving from the

current note disclosure to reporting as a direct liability would have a dramatic negative impact (currently in the range of $11 billion) on the Province's financial position.

The government must require the WCB to draw up a credible plan within a year, which the Commission considers the maximum time that can be allowed, in order to:

- ensure the financial stability of the trust and the elimination of a potential provincial liability;

- ensure injured workers have adequate coverage; and

- keep premiums at a level that allows Ontario employers to compete in the global economy.

The plan should include benchmarks against which to measure progress at least every two to three years, so that action can be taken in time if targets are missed. To make sure it is followed, the board's financial accountability should be enshrined in the governing statute, the Workers' Compensation Act.

Recommendation II.8: That the present disclosure of the Workers' Compensation Board in the notes to the financial statements in the Public Accounts be improved by expanding it to include summary disclosure of the Board's balance sheet and its statement of operations and unfunded liability.

Discussion: Note 6 to the financial statements of Ontario for the year ended March 31, 1995 offers only a very cursory description of the WCB and its unfunded liability:

> *Trust funds under administration include the Workers' Compensation Board with assets of $6,800 million and actuarially determined benefits liabilities of $17,500 million and other liabilities of $700 million at December 31, 1994.*

Three other much smaller trusts receive a similar level of disclosure in the same note, despite the huge disparity in their size and

importance relative to the WCB.

In view of the size of the WCB's asset shortfall (unfunded liability) both in absolute terms and relative to its total assets, and uncertainty as to who has the ultimate responsibility for it, the Commission believes the government must expand disclosure, as outlined in this recommendation.

Recommendation II.9: That government review the current governance structure of the Workers' Compensation Board with a view to making it financially accountable, more effective, and better able to provide leadership.

Discussion: The Commission does not believe that the present governance structure of the WCB, which allows for representation of various constituencies, is effective. For accountability, there must be responsibility to the Trust itself: governance must ensure that board members act on behalf of the Trust's long-term interests rather than the interests of a particular constituency.

In addition, as noted in the discussion to Recommendation II.7, the apparent influence of government on benefits, premiums and coverage undermines the ability of the board of trustees to govern in an accountable fashion. As well, some of the powers available through the adjudication process also appear to conflict with the board's mandate to set premiums, coverage and benefits.

In the view of the Commission, government must change the role, responsibilities and specific mandate of the board of trustees, to allow it to act in a fiscally responsible way. While government has the responsibility for setting the board's mandate, the board must have the sole power to carry it out. Government should also review and alter the adjudication process, so that it is concerned only with ensuring that the board adheres to its mandate and does not have a role in setting benefits, coverage or premiums.

The Commission is also concerned that the memorandum of understanding between the WCB and the Minister of Labour has not been updated in more than a decade, contrary to the requirement of the governing statute. This failure underlines the ineffectiveness of the present governance structure.

Recommendation II.10: That the investment practices of the Workers' Compensation Board be reviewed independently to assess whether return on investments is appropriate to its long-term goals.

Discussion: The Commission's brief review of the WCB's financial statements and discussions with WCB and government staff indicate that the policies governing the investment of its $6 billion in assets appear very conservative, both in terms of the composition of the portfolio and its return. The Commission recommends the use of external advice from both the Ontario Financing Authority and independent investment counsel, with a view to increasing the potential rate of return in line with WCB goals to eliminate the unfunded liability and sustain its operations over the long term.

C. Accounting issues

The Minister of Finance referred a number of specific accounting issues to the Commission, some of which PSAAB has not yet ruled on.

Recommendation II.11: That, in absence of a PSAAB guideline in a specific area, government follow, in order of authority and depending on availability:

- accepted public-sector practice;
- generally accepted accounting principles in the Handbook of The Canadian Institute of Chartered Accountants (CICA);
- guidance from the CICA's Emerging Issues Committee; or
- accepted private-sector practice in the area.

Treatment of capital assets

Recommendation II.12: That government continue its accounting treatment of capital assets, which is generally to expense all spending on assets in the year they are bought or built, and follow those practices in the Budget and quarterly updates until PSAAB standards deal with capital assets. If and when PSAAB standards for capital assets are issued, the government should adopt them.

Discussion:

The treatment of capital assets is one of the most important issues that PSAAB is currently studying and it has far-reaching implications for public-sector financial reporting. For that reason, the Province should wait until PSAAB has pronounced before changing its treatment of capital assets. Accepting PSAAB in this area is consistent with Recommendation II.1.

Appendix VII outlines some of the possible implications of a change in the accounting treatment of capital assets.

However, the Commission believes that adopting capitalization and amortization throughout the entire planning and internal reporting system would greatly improve financial management within government.

Costs of restructuring

Recommendation II.13:

That, when reporting the impact of restructuring that involves reducing staff, government follow the guidance of the Emerging Issues Committee of The Canadian Institute of Chartered Accountants. In general terms this would mean accruing and expensing the costs at the time the restructuring decision is made.

Discussion:

The Commission believes the guidance of the Emerging Issues Committee best reflects the circumstances under which government restructuring takes place. Expensing the costs in the year in which the decision is made reflects the fact that the affected staff will not be providing service in future years.

The Emerging Issues Committee has dealt with what constitutes the date on which the decision is made. Its Abstract of Issue Discussed, EIC-23, states:

> *The commitment date for a staff reduction plan occurs when all the following conditions are met:*
>
> *(a) Management having the appropriate level of authority approves and commits the entity to a staff reduction plan.*

(b) *The staff reduction plan specifically identifies all significant actions to be taken to complete the plan and the expected date of completion.*

(c) *Actions required by the staff reduction plan will begin as soon as possible after the commitment date and the period of time to complete the plan indicates that significant changes to the plan are not likely.*

The Commission believes that Cabinet commitment to a plan meeting these criteria would constitute a downsizing decision for government.

Unusual items

Recommendation II.14: That government recognize all expenditures, including those related to downsizing or asset write-offs, in arriving at the annual deficit. It may disclose separately these and similar non-recurring costs.

Recommendation II.15: That the proceeds of asset sales or other transactions outside the normal course of business be included in the reporting of government's annual deficit and disclosed separately from ongoing revenues.

Discussion: The Commission does not believe the concept of reporting an annual deficit "before extraordinary items" — analogous to the private sector's "income before extraordinary items" — is useful for the public sector. The annual deficit should include all revenue and expenditure items, whether or not the activities they reflect are part of on-going operations.

PSAAB has not pronounced in this area. In the private sector, extraordinary items result from infrequent transactions outside the control of management and outside usual business activities. Private-sector accounting allows the reporting of operating income before "extraordinary items."

However, where expenditures are concerned, the Commission

could not identify any items in the public sector that would meet the private-sector definition. Further, it does not believe the concept of reporting a deficit before extraordinary items is useful for the public sector.

Revenues from asset sales outside the normal course of business or other unusual transactions should be reported separately in presenting results, so that readers can clearly identify government's normal, ongoing revenues. However, they should be reflected in the annual deficit amount.

The Commission recommends a three-column presentation for the Province's financial reporting, which compares actual results to both the previous year's actuals and the plan at the start of the current year. In this reporting presentation, readers will be able to see immediately whether unanticipated revenues have been used to lower the expected annual deficit, as outlined in Recommendation II.15.

III. Crown agencies

In its mandate, the Commission had the specific task of assessing the financial reporting of six Crown agencies:

- The Metro Toronto Convention Centre;
- The Development Corporations of Ontario;
- The Ontario Financing Authority;
- The Ontario Transportation Capital Corporation;
- The Ontario Clean Water Agency; and
- The Ontario Realty Corporation.

In reviewing these agencies, the Commission was to determine whether:

- the accounting treatment in the provincial financial statements and the agencies' own statements properly reflects the nature of the agencies' activities;

- the agencies identify and explain, in their reports, the benefits and costs of their agency status;

- agencies which have activities that are treated as self-sustaining provide information to support this; and

- the existing accountability framework adequately measures and monitors performance and allows for full public accountability.

It became clear to the Commission during its review that issues arising from the activities of specific agencies reflected a broader need to address the question of what type of organization is best suited to delivering a public service. This is an element of improving financial management. As a result, in addition to dealing with questions about specific agencies, the Commission looked at:

- whether the existing system, which classifies agencies into four categories, each with specific powers and responsibilities, best meets the current needs of government;

- the need to develop a framework for deciding on the best

organizational structure to deliver a specific public program or service; and

- how the government might improve the financial reporting, management and accountability of existing agencies.

In line with those discussions, recommendations in this area fall under three headings:

A. Service delivery

B. Accounting and accountability for existing agencies

C. Recommendations specific to agencies

A. Service delivery

Recommendation III.1: That government develop a management framework, based on the one outlined below, to determine which type of organization will deliver services most effectively and efficiently. This framework should specifically address the accountability issues that follow from any special powers the particular organization is given, and require ongoing monitoring to ensure that any special powers are justified.

The government should use this framework to decide whether the structures and operations of existing organizations need to change to improve their performance.

Discussion: Funding a service in whole or part does not restrict government to providing that service directly. In order to make best use of public resources while maintaining service, governments in Canada are increasingly looking to different ways of delivering services to the public. The Commission believes this is an essential step in good financial management and accountability.

To protect the resources of taxpayers, government must make every reasonable effort to ensure public funds are spent as efficiently and effectively as possible, no matter what mechanism is used for service delivery.

Clearly, options for delivering services can take many forms, and new forms are emerging as governments search for ways to deliver services more cost-effectively. Some of these delivery options aim to improve service and reduce costs by using market-pricing mechanisms. The Commission believes that such options can both improve efficiency and effectiveness and protect the public interest. Appendix VIII outlines some examples.

In the policy process that translates government goals into programs and services, managers should consider all possible delivery options which could improve efficiency and effectiveness. A change in delivery mechanism might also follow from reviewing the performance of the service deliverer.

In choosing a particular mechanism to deliver a service, government should consider at least these key factors:

External expertise: To what extent will the organization benefit from the ongoing presence, as directors or advisers, of parties outside government?

Flexibility: Does the organization need greater flexibility than is available under government staffing and operating practices to carry out its work effectively?

Self-sustainability: To what extent will the organization be self-sustaining? Is it able to operate in the normal course of business without ongoing support from government?

Independence in decision-making: To what extent does the organization need to be removed from political direction and influence?

Different types of organization that could deliver a service include:

A **government ministry** providing direct service;

A Crown agency called a **service organization type I**, which needs ongoing government funding and must follow all government staffing and operating guidelines;

A Crown agency called a **service organization type II**, which also needs ongoing government funding but is exempt from some or all government staffing and operating guidelines;

A Crown agency called a **government enterprise**, which sells goods or services outside government and does not need ongoing government funding; and

A regulated or unregulated **private-sector** entity.

Setting these structures against the factors involved in deciding on a structure creates the following matrix:

	External expertise	**Organizational flexibility**	**Self-sustainability**	**Independence**
Govt. ministry	Limited	No	No	No
Service org. I	Yes	No	No	Increasing
Service org. II	Yes	Yes	No	
Enterprise	Yes	Yes	Yes	
Regulated private	Yes	Yes	Yes	
Unregulated private	Yes	Yes	Yes	Yes

The Commission believes the government should adopt the principles of this framework in preference to the current four schedules for Crown agencies. Appendix IX describes the current classification of Crown agencies and discusses their accounting treatment.

Government goals, accountability to taxpayers and users, quality of service and efficient and effective use of public resources should be the guiding principles in deciding which mechanism is best suited to delivering a particular service.

Recommendation III.2: That, when an agency is the organization used to deliver a

government service, its business plans and published annual reports detail the costs and benefits of agency status. If the costs significantly outweigh the benefits over time, then government should conduct the activities through a ministry instead.

Discussion:

This recommendation follows from the Commission's deliberations on the possible factors that might make an agency — rather than the ministry itself, another level of government, the private sector, or some other body — the best mechanism for delivering a particular service.

An agency may have powers, means of raising revenue, and ways of operating that are different from those of the government ministry to which it is connected. However, there are costs related to agency status.

The Commission believes that agency status is justifiable only when the benefits clearly outweigh the costs. Government must show, before setting up an agency, the net benefit; and the agency's reporting must demonstrate that there continues to be a net benefit.

For agencies that are service organizations, the sum of the benefits derived from having the appropriate level of control, consultation and/or flexibility must outweigh the costs of agency status. For agencies that are enterprises, those benefits plus any financial benefits must outweigh the costs associated with the particular organizational structure.

Recommendation III.3:

That, where there are no overriding public-policy reasons for government ownership of an enterprise which could operate successfully in the private sector, the private sector carry out the activity instead.

Discussion:

Having government carry out, or control an agency that carries out, what is essentially a private-sector activity may lead to a conflict between government goals and market forces. Only strong public-policy reasons, which government should explicitly identify, can justify allowing the potential for this conflict.

This recommendation refers specifically to Crown agencies that report as "government enterprises." These agencies operate much

like private-sector companies. They sell goods or services outside government. Their financial reporting follows private-sector standards.

A government enterprise might be able to operate successfully in the private sector. The Commission believes that, barring overriding public-policy reasons, the private sector is generally the best way of maximizing effectiveness and efficiency.

Where there are public-policy goals, the Commission believes government must determine whether these can be met through regulation or other means which would still allow the private sector to carry out the activity.

Recommendation III.4: That government set out an accountability framework for all Crown agencies. The framework should require that agencies produce business plans, similar to those recommended for ministries, which set appropriate targets, report on results, and require ongoing monitoring. This framework should incorporate ongoing measurement of costs and benefits of agency status, as discussed in Recommendation III.2.

Discussion: This recommendation follows from both a general need for accountability in all government entities, and specific accountability issues that stem from agency status.

Section I of this report addresses the general accountability needs for government, its ministries and other public entities, and lays out a proposed framework for legislative review of business plans. If such a framework is put in place, agency business plans should be included in the review of their ministry.

The specific accountability issues for agencies are:

- whether agency status is justified or a ministry should carry out the activity instead; and

- whether the agency operates successfully enough as an enterprise that its activities could be carried out by the private sector.

In addition to the requirement for business plans, performance measures and reviews outlined in this report for all government entities, agencies must address these two issues in their planning and reporting on an on-going basis.

Of the existing agencies that the Commission looked at, some provide information in their financial reports on their future goals and success towards meeting previously set goals, as required by general accountability for the public sector. However, not all the agencies provide enough detail on new targets or progress towards existing ones. No agency operates under as full an accountability framework as the Commission is now recommending.

B. Accounting and accountability for existing agencies

Recommendation III.5: That government expense, in the year they are made, any financial contributions needed to establish or continue an enterprise's self-sustaining status.

Discussion: This treatment reflects the cost to government of setting up or continuing an agency's self-sustaining status, and should be recorded as an expense in the year in which the funds are committed to the agency.

Many agencies are enterprises in that they sell services outside government, but may need financial infusions during the start-up phase to be self-sustaining.

This recommendation is intended to cover that case, or the case of an agency that for some unforeseen reason may need a one-time financial contribution after it is up and running. The recommendation does not apply to agencies that need on-going funding each year from government because they do not earn enough revenue from their activities to cover their costs over the long term. Under proposed PSAAB standards, such agencies would be reported as "service organizations."

Recommendation III.6: That, when an agency is classed as an enterprise on the basis of financial projections, it update those projections annually.

Discussion:

In its early years, before it is able to earn revenue, an agency which might ultimately be self-sustaining will likely need financial contributions from government. At start-up, and before it is fully operational, the agency provides financial projections that estimate its revenues, expenses and funding needs for several future years in order to show its ultimate self-sustainability. The government uses those projections to decide if the agency qualifies as an enterprise (which is self-sustaining) or a service organization (which is not).

The distinction is currently important in government financial reporting because enterprises and service organizations use different bases of accounting.

Under current accounting rules, the essential differences are that capital assets are carried on the enterprises's balance sheet rather than being expensed, and the enterprise is included on the modified equity basis in the Province's financial statements.

Service organizations are consolidated on a line-by-line basis in the government's books and their capital assets are expensed when bought.

Recommendation III.7:

That government write off, at the time of its decision, its investment in any agency that it judges to be no longer self-sustaining. The agency should then be reclassified and treated as a service organization.

Discussion:

This treatment deals with the case of an agency that may have aimed at being self-sustaining, but in the event is not and clearly will not be for the foreseeable future. In the absence of a specific PSAAB pronouncement on this issue, the accounting treatment follows from Recommendation II.14, which says that government should show as an expenditure in the year it occurs any unusual event such as a write-down in the carrying value of an asset.

There may be periods, for example when economic growth slows, when an enterprise's revenues fail to cover its costs for one or more years. However, if the enterprise's business plan shows that it will regain its self-sustaining status over a reasonable period, then it should continue as an enterprise, subject to annual updates of its projections.

In the year that an enterprise is reclassified as a service organization, this accounting treatment would increase the government's expenditure for the year by the amount of investment in the capital assets of the former enterprise plus the amount of the former enterprise's net loss for the year.

Because this treatment has the potential to cause a major increase in the reported deficit, it underlines the importance of realistic financial projections, updated annually, to support an agency's enterprise status.

Some agencies, although they sell goods or services outside government, need financial support from government in the regular course of their business. Current accounting treats many of these agencies as enterprises. Under the proposed PSAAB rules, they will be accounted for as service organizations. The impact of this change will be accounted for as outlined in this section.

Recommendation III.8: That, where an agency has both enterprise and service activities, the agency's own reporting clearly differentiate between these activities. Where it also acts as agent for government or other government agencies, the agency's financial statements should give appropriate note disclosure of its activities as an agent.

Recommendation III.9: That, when creating a new agency, government seek to give it responsibility for activities that are either enterprise or service in nature, but not both.

Discussion: These recommendations follow from the hybrid nature of some existing agencies. They have both service activities, which require ongoing funding, and enterprise activities, which may not. In addition, some agencies may act on behalf of (or "as an agent for") government or another agency.

The Commission believes that mixing service and enterprise activities may result in confusion in reporting results and reduce accountability; all existing agencies should therefore make a clear distinction in their own reporting between the two types of activities.

Similarly, when acting on behalf of another party, an agency may undertake activities with important consequences that are not recorded in its financial statements. For that reason, details of such activities should appear in the notes to the agency's financial statements.

Because of the problems arising from hybrid activities, the Commission recommends that in future, government try to avoid giving any new agency both service organization and enterprise responsibilities.

C. Recommendations specific to agencies

Note: All recommendations on specific agencies are subject to the general recommendations above on business plans, review of agency status, accountability and performance measurement.

Metro Toronto Convention Centre

Recommendation III.10: That the Metro Toronto Convention Centre (MTCC), which now reports as an enterprise, provide annual updates of its business plan to support that continuing status.

Recommendation III.11: That updated projections and business plans use net income as defined under generally accepted accounting principles in assessing MTCC's self-sustaining status.

Discussion: The recommendation is particularly important for the Convention Centre, because under its existing memorandum of understanding with government the cash available to make it self-sustaining is interpreted as cash flow before provision for financing costs or capital replacement. Net income using generally accepted accounting principles takes into account the costs of capital replacement by showing a charge for amortization.

Recommendation III.12: That the province show as an expenditure in its financial statements its proposed $75 million non-repayable construction grant to MTCC when it is paid.

Discussion: This grant relates to funds for expansion of the convention centre in

Toronto which MTCC operates. The Province will provide part of the funding as a non-repayable grant and part as a loan.

Development Corporations of Ontario

Recommendation III.13: That, when and if PSAAB adopts its proposed standards on Crown agency reporting, the Development Corporations of Ontario (DCO) be classified as a service organization.

Discussion: This agency, which now reports as a government enterprise, has a history of annual operating losses and will not meet the proposed PSAAB definition for enterprise reporting. It should be reclassified as a service organization, subject to its continued existence as a Crown agency.

Recommendation III.14: That the various regional agencies of the Ontario Development Corporations be combined and report as one entity.

Discussion: This change will reduce duplication in these entities.

Ontario Financing Authority

Recommendation III.15: That the Ontario Financing Authority (OFA) retain its status as an agency and that, in order to strengthen its risk-management capability, it be given greater management and administrative flexibility and add outside directors to its board.

Recommendation III.16: That the board of directors of the OFA set over-all goals that are in line with its status as a government agency, and ensure that its risk-management policies in all its activities, including managing the Province's debt and investment portfolios, are consistent with those goals. The OFA should also ensure that its risk-management and disclosure policies draw on the best practices of the financial community. The OFA's annual report should disclose its goals, policies and practices in detail, along with related targets, activities, and performance.

Discussion: Like the other agencies discussed in the remainder of this section of the report, the OFA was created in 1993. Its role is to co-ordinate the borrowing and investing activities of the province, advise on the

business plans of some Crown agency activities, and operate the Province of Ontario Savings Offices.

The Commission believes the benefits that can follow from agency status — such as allowing the OFA access to risk-management expertise, staffing and operational flexibility — outweigh the costs. As noted above, this recommendation is subject to Recommendations III.1, III.2 and III.4.

At present, the OFA is not able to benefit fully from its agency status because, as it is currently structured, it must follow government staffing and operational guidelines. As well, its board is drawn entirely from the public service. The nature of its work requires that the OFA have:

- staff with a high level of expertise in corporate finance and risk management;
- computer systems that can keep up-to-date records of its exposures and positions;
- comprehensive administrative controls; and
- the advice of outside board members who are knowledgeable in these areas.

The OFA has an excellent track record, but the needs outlined above, which are important to its continued success, cannot be met unless the recommended changes are made. The Commission believes that making them will strengthen the OFA's performance and risk-management abilities.

The advice of a board of directors drawing on outside expertise will also help the OFA to set goals and targets for its performance that are in line with its risk tolerance as a government agency. Outside expertise can also help the OFA to carry out these goals using the best practices of the financial community.

Because the OFA's activities are financial, it can set benchmarks that parallel those already developed in the financial services industry. Each annual report should outline benchmarks for the

coming year, the activities the OFA undertook in working towards its goals, actual performance against previous benchmarks, and an explanation of any variations from its plan.

Ontario Transportation Capital Corporation

Recommendation III.17: That the Ontario Transportation Capital Corporation (OTCC) and government monitor regularly and assess at least annually OTCC's performance against projections to support its continuing status as a government enterprise, in view of the government's significant investment in OTCC and because of the uncertainty of OTCC's ultimate self-sustainability.

Discussion: The main activity of OTCC at present is planning and overseeing the construction of Highway 407, a toll highway being built north of Metropolitan Toronto. OTCC has prepared a detailed business plan for the highway based on consultants' studies, traffic pattern analyses, surveys of drivers' preferences and financial projections. This plan, which appears to be based on the best current information available, shows that Highway 407 can sustain its operations from toll revenues.

Because the business plan uses projections, OTCC must update these regularly to make sure it will be self-sustaining in future. The Commission believes that this should be done at least annually, in line with Recommendation III.6; because toll collection will depend on new technology for which there is no established track record, government may decide that more frequent updates are warranted.

Ontario Clean Water Agency

Recommendation III.18: That the Ontario Clean Water Agency (OCWA) show, in a detailed business plan, the measures that will be required for it to remain self-sustaining as it faces more private-sector competition in its operating activities and lessens its dependence on profits from its financing activities, which are now the source of its self-sustaining status.

Recommendation III.19: That government consider granting OCWA more management and administrative flexibility to allow it to operate more competitively.

Discussion:

OCWA helps Ontario municipalities to finance, build and operate water-treatment and sewage-treatment plants. It currently operates as a government enterprise and is able to recover the costs of its operations.

OCWA is a hybrid organization of the type described in Recommendation III.8. It can recover the costs of some of its activities, and they fit the proposed PSAAB definition of "self-sustaining." Other activities are provided at a net cost to the agency.

OCWA describes itself as being in the following lines of business:

- capital financing (that is, providing loans to municipalities to build water-treatment plants);
- managing projects;
- providing technical advice and assistance;
- operating utilities; and
- administering the Municipal Assistance Program.

In its reporting, OCWA combines some of these activities, providing results for "financial operations" and "utility operations" only. At present, profits from financial operations more than make up for losses on utility operations. The agency would meet the proposed PSAAB definition of self-sustaining at present.

OCWA is moving towards putting its utility operations on a profitable footing. This will be essential to its long-term self-sustaining status, because in future it will face more competition in its financing operations. A detailed business plan is necessary to show the measures that will have to be taken to allow OCWA to be self-sustaining in future. These may include a change in status which would give OCWA greater staffing flexibility.

Ontario Realty Corporation

Recommendation III.20:

That the Ontario Realty Corporation (ORC), which now reports as a government enterprise, be treated as a service organization instead. It should retain its status as an agency in order to draw on outside expertise in managing the Province's real estate assets.

Discussion:

The Commission believes the Ontario Realty Corporation has shown that at present the benefits it derives from agency status outweigh the costs. Agency status allows it to draw on specialized outside expertise in its task of managing the Province's real estate assets. In line with recommendations that apply to all agencies, the ORC should continue to demonstrate the net benefits of agency status in future.

The ORC should not be accounted for as an enterprise, because it does not sell goods or services to non-government entities as its main activity. It should report as a service organization. This will not have a material impact on the Province's financial statements.

Because of its role in managing assets, the Commission feels it is appropriate for the ORC to prepare its management plans and reports in a way that takes into account all costs, including the annual cost of capital represented by amortization.

IV. Next steps

Recommendation IV.1: That government immediately draw up an action plan to show leadership in putting these recommendations in place.

Discussion: The Commission believes that clear leadership from the highest levels is critical to the success of this framework and to the greater efficiency and effectiveness it will create. For that reason it requests that the Minister of Finance, his colleagues in the Legislature, and senior management of the public service show that leadership by drawing up a plan for immediate action on this report.

Appendix I. Mandate and background

In late July 1995, Ontario Finance Minister Ernie Eves announced the government was setting up a commission to look at how the Province recorded its financial transactions, kept its accounts, managed its finances and organized its work. One of its specific goals was to "restore credibility and confidence in the reporting of the financial position of the Province."

An initial reason for a review was confusion about the existing system. The government's two main documents for outlining plans and reporting results, the Budget and the Public Accounts, use different ways of describing the impact of activities. As a result, the "deficit" outlined in the Budget at the start of the year could be different from the "deficit" reported in the Public Accounts at the end of the year, even if the underlying events described in both were identical.

The Commission's mandate included several other elements. In total, the government asked the commission to consider:

If it would make sense to adopt the PSAAB standards used in the financial statements in the Public Accounts for the Budget and the Estimates.

As well, the Commission looked at quarterly updates to the plans laid out in the Budget. These normally appear every three months during the fiscal year.

Better ways of forecasting revenues and planning spending so that government can be more certain of achieving its fiscal targets.

The Ministry, in preparing its Budget, relies on forecasts of economic growth during the year, and how much tax and other revenues government will collect during the fiscal year. On the expenditure side, it lays out what the government plans to spend during the year. Its "medium-term fiscal plan" uses forecasts that cover future years.

The Commission examined how the Ministry prepares its forecasts, and ways of trying to make sure the forecast is closely in line with actual events. It looked at some of the ways the government might cushion the impact if conditions are not as forecast.

On the spending side, the Commission studied ways of planning for more efficient and effective use of resources.

Ways of getting the right financial information out more quickly.

This information is valuable for government, to help it make decisions. The public also needs it in order to help judge how well government is using its resources.

Improving the way government manages its finances and reports on financial matters.

The Commission looked at existing incentives and disincentives to the best use of public resources, including organizational, human resource and systems questions.

This element of its mandate also included studying ways of improving the content of the Province's financial reports and getting them out more quickly. Financial reports include the Estimates, the Budget, the quarterly finances, annual reports of Crown agencies, and the Public Accounts.

The way that Crown agencies report their financial dealings and activities.

The Commission addressed several questions about Crown agencies, some of which were set up to carry out work that ministries had done in the past:

- where agencies oversee projects that are supposed to be "self-supporting," the commission was asked to make sure that this was the case;
- it looked at whether the benefits offered by the status of agencies offset the costs they incur; and
- it also asked the agencies about measuring how well they carry out their tasks and report on their performance.

No audit was carried out, and information requested and received from all sources was accepted and relied on. The Order in Council setting up the Ontario Financial Review Commission is attached.

Ontario
Executive Council
Conseil des ministres

Order in Council
Décret

On the recommendation of the undersigned, the Lieutenant Governor, by and with the advice and concurrence of the Executive Council, orders that:

Sur la recommandation du soussigné, le lieutenant-gouverneur, sur l'avis et avec le consentement du Conseil des ministres, décrète ce qui suit :

WHEREAS the Government of Ontario considers that the public interest requires a review of the financial practices of the government, including its Crown corporations, boards and commissions, in order to restore credibility and confidence in the reporting of the financial position of the Province;

NOW THEREFORE,

1. A Commission to be known as the Ontario Financial Review Commission is established to examine and report to the Minister of Finance on the following issues:

- The desirability of adopting Public Sector Auditing and Accounting Board accounting standards, currently used in the preparation of the summary financial statements, in the estimates and budget;
- An assessment of reporting practices and activities of Crown agencies as directed by the Minister of Finance;
- Advice on the appropriate reporting of and accounting for extraordinary items, including adjustments to asset values and such other required valuation changes as may be identified by the Commission;
- Options for ensuring that timely and relevant information is available to the government to support decision-making, and to the public, to improve accountability;
- Options for improving the financial management and reporting of government, including the timeliness and content of reports issued by the government (the estimates process, the provincial budget, quarterly finances, annual reports of Crown agencies, the Public Accounts of Ontario);
- Options to provide Ontario with a prudent planning framework for the medium term plan and a realistic budgeting framework for expenditure planning, including the use of contingency provisions for economic assumptions, revenue variations, and statutory spending; and
- Any other related matters that may be recommended by the Commission and approved by the Minister of Finance, and any other matters as directed by the Minister of Finance, that will enable Ontario to achieve the overall objective of improving financial management and public accountability.

O.C./Décret 1631/95

2. The Commission shall provide an implementation plan including an estimate of cost, time and human resource requirements for each of its recommendations.

3. The preliminary report of the Commission shall be delivered to the Minister of Finance by September 29, 1995 and the final report of the Commission shall be delivered by October 31, 1995 unless other dates are determined in consultation between the Minister of Finance and the Commission.

4. The Lieutenant Governor in Council shall appoint two persons to be members of the Commission, and shall designate one of them as Chair and the other as Vice Chair of the Commission. The Minister of Finance shall appoint six other persons to be members of the Commission, and may appoint such other persons to be members of the Commission as the Minister considers advisable for carrying out the responsibilities of the Commission.

5. The Commission may carry out consultations with interested organizations and individuals to obtain their views and concerns on improving the financial management and public accountability of government, in such manner as the Commission, in consultation with the Minister of Finance, considers appropriate and may undertake studies or commission reports, as the Commission, in consultation with the Minister, considers necessary to the completion of the Commission's work.

6. In the expenditure of funds and the purchase of goods and services, the Commission shall adhere to the Management Board of Cabinet Directives and Guidelines.

7. All government ministries, agencies, boards and commissions shall assist the Commission to the fullest extent.

8. Administrative services to the Commission shall be provided by the Ministry of Finance as the Minister deems necessary.

Recommended ____________________
Minister of Finance

Concurred R.W. Runciman
Chair of Cabinet

Approved and Ordered JUL 25 1995
Date

____
Lieutenant Governor

Appendix II. How the Commission carried out its work

The Ontario Financial Review Commission comprised eight members, six from the accounting profession and two from the broader business community. Names and brief biographies of the Commissioners are attached. Ontario's Provincial Auditor, Erik Peters, served as special adviser and attended all meetings. Michael L. Gourley, the Deputy Minister of Finance for Ontario, acted as secretary.

The Commissioners began their work in early August 1995, meeting every week until November 10. Because they were directed to present a final report to the Minister of Finance at the end of three months, Commissioners decided to form two task forces, each made up of four Commissioners, to examine specific issues and develop direction as quickly as possible. While these task forces worked in parallel for part of the Commission's deliberations, all recommendations are the result of study and discussion by the full Commission.

Because of the three-month deadline for reporting, the Commission was not in a position to organize and hold public hearings. However, advertisements were published in newspapers across the province asking the public for written submissions. This appendix includes a list of submissions (except for commercial and professional solicitations) and a copy of the advertisement. Any submission that touched on specific activities of a ministry and/or agency was passed on to the relevant ministry.

In dealing with the most complex elements of its mandate, Crown agency reporting and economic/revenue forecasting, the Commission had research carried out through three external contracts. Recommendations based on their work are those of the Commission.

Several individuals, from within the Ontario public sector, other governments, and outside organizations, met with the Commission as part of its deliberations. A list is attached.

The Commission relied not just on those discussions, but on research and other work carried out by staff of the Ontario public service, in particular the Controllership Branch of the Ministry of Finance. The research included a survey of ministries to determine the current status of performance management, specifically around the use and acceptance of performance measures.

In the deliberations which form the basis of this report, Commissioners relied on their own experience and skills in financial management, accounting and

reporting, as well as the discussions and research noted above, within the context of a three-month schedule.

The Commission notes that it did not have access to the 1995 Annual Report of the Provincial Auditor, scheduled for presentation to the Legislature on November 14, 1995, before completing its deliberations.

Members of the Ontario Financial Review Commission

Chair: William H. Broadhurst, F.C.A., was the Chairman of Price Waterhouse in Canada from 1985 to 1990. He served as President of the Institute of Chartered Accountants of Ontario and the Public Accountants Council of Ontario. He is currently Chairman of the Legal Liability Task Force for the accounting profession. He is a public governor of the Toronto Stock Exchange, Vice-Chairman of the Ontario Press Council and a member of the Board of Providence Centre.

Vice-Chair: Helen K. Sinclair is the President of the Canadian Bankers Association. She is a Director of the Canadian Payments Association, Harvard Business School Club of Toronto, the YMCA of Greater Toronto, the C.D. Howe Institute, the Livingston Group Inc. and Stelco Inc. She is also a member of the Social Sciences and Humanities Research Council of Canada and the Board of Governors of York University.

Sonja Ingrid Bata is a member of the Boards of Directors of Bata Limited, Alcan Aluminum Limited and Canada Trustco. She is also Chairman of the Bata Shoe Museum Foundation and of the Governors' Council for North York General Hospital.

Hugh John Bolton, B.A., F.C.A., is the Chairman and Chief Executive Partner and Chairman of the Partnership Board for Coopers & Lybrand Canada, as well as a member of the International Executive Committee and Board Directors for Coopers & Lybrand International. Mr. Bolton is a member of the Business Advisory Council to the School of Business at York University and a member of the Advisory Council to the School of Business at the University of Alberta.

Martin Calpin, F.C.A., is Managing Partner of the National Office for Deloitte and Touche. Mr. Calpin has chaired various committees, including the CICA Task Force on AICPA Jenkins Committee Recommendations, and has served a two-year term as Auditing Standards Director of the Canadian Institute of Chartered Accountants. He is the author of the booklet *Understanding Audits and Audit Reports.*

Cecil Fredrick Fleming, F.C.A., is the National Managing Partner for BDO Dunwoody, where he also serves as a member of the Policy Board of the Firm's International Association, BDO Binder. Elected Fellow of the Institute of Chartered Accountants of Ontario in 1985, he is currently a member of the Appeal Committee for the ICAO and has been a speaker at ICAO Annual Conferences in 1984 and 1986. Mr. Fleming has also served on the Board of Governors of YMCA of Greater Toronto.

David L. Knight, F.C.A., is a partner of KPMG Peat Marwick Thorne. He is KMPG's Vice-Chairman, Professional Standards, and a member of its Management Committee. He is Chairman of the Quality Performance Committee of KPMG International. He is a past chair of the Ontario Securities Commission's Financial Disclosures Advisory Board and was the founding chairman of the Emerging Issues Committee of the Canadian Institute of Chartered Accountants.

Robert E. Lord, F.C.A., is Vice-Chairman of Ernst and Young and is a member of the Board of Governors for the Canadian Comprehensive Auditing Foundation. He is a Governor of the YMCA of Greater Toronto and also Chairman of the Board for the Canadian Royal Life Saving Society.

Individuals appearing before the Ontario Financial Review Commission

Note: Some of the following also made written submissions.

External

Don Drummond, Assistant Deputy Minister
Fiscal Policy and Economic Analysis
Department of Finance, Canada

Luc Monty, Director
Revenue Forecasting & Taxation
Ministry of Finance, Québec

Claude Daillaire, Economist
Revenue Forecasting & Taxation
Ministry of Finance, Québec

Lloyd Atkinson, Principal
MTA Investment Council Inc.

Judith Maxwell, President
CPRN Inc.

Jean-Pierre Boisclair, Executive Director
David Moynagh
Canadian Comprehensive Auditing Foundation (CCAF)

Marshall Williams
Chair of the Alberta Financial Review Commission

Walter Schroeder, President
Brian Miron
Jeff Moore
Dominion Bond Rating Service

John J. Kelly, Director
Public Sector Accounting & Auditing
The Canadian Institute of Chartered Accountants

Government of Ontario

Ministry of Finance

Steve Dorey, Assistant Deputy Minister, Office of Economic Policy
Patrick Deutscher, Director, Macroeconomic Analysis and Policy Branch
Ed Jansen, Team Leader, Controllership Branch
Diana Kalisz, Senior Analyst

Management Board Secretariat

Peter Wallace, Director, Expenditure Management and Reporting Branch
Paul Evans, Team Leader
David Sheffe, Senior Analyst

Ministry of Labour

Tim Millard, Deputy Minister
Marguerite Rappolt, Director, Workplace Policies and Practices Branch
Robert Phillips, Executive Assistant to the Minister of Labour

Crown Agencies

Ontario Hydro
Eleanor Clitheroe, Chief Financial Officer
Larry Leonoff, Legal Counsel
Ontario Hydro External Auditors, Ernst & Young

Workers' Compensation Board
Glenn Cooper, Senior Vice President of Finance

Ontario Development Corporations
Susan Strelioff, President and Chief Executive Officer
Harvey Glower, Vice President, Portfolio Management Services
Matthew Gaasenbeek, Chair, Ontario Development Corporation
Ann Clarke-Okah, Chair, Audit Committee, Eastern Ontario Development Corporation

Ontario Financing Authority
John Madden, Vice-Chair
Christine Moszynski, Director, Capital Markets Treasury

Ontario Transportation Capital Corporation

George Davies, Chair
Dennis Galange, President/Chief Executive Officer
David Garner, Vice President
Chad McCleave, Chief Financial Officer
Tony Salerno, Executive Vice President
Brian Swartz, General Counsel

Ontario Realty Corporation

Don King, Chair
Tim Casey, Chief Executive Officer
Ralph Grant, Chief Financial Officer

Ontario Clean Water Agency

Jeff Marshall, Chair

Metro Toronto Convention Centre

John Maxwell, President and Chief Executive Officer
Susan Brandow, Chair
Susan Denbak, Vice President of Development

Those making written public submissions

A. Submissions dealing with forecasting, accounting, reporting, and broad accountability issues:

The Commission considered submissions from the following:

Joanne Watt, CA, Ottawa
Bryan P. Davies, Royal Bank of Canada, Toronto
Judith Andrew, Canadian Federation of Independent Business (CFIB), Willowdale
Maxwell Henderson, Auditor General of Canada (1960 - 1973), Ottawa
Allan R. Cooper, Canadian Bankers' Association, Toronto
Timothy Whitehead, Left Bank Economics Inc., Paris
John Holtby, Senior Officer, Ontario Legislative Assembly (1970 - 1981)
Gary Holmes, Health Canada, Ottawa

B. Submissions dealing with ministry/agency accountability and other issues

The Commission has noted the following submissions in its deliberations, and also forwarded them to the appropriate ministry for further consideration:

Gerry Houston and Stewart Fyfe, Association of Conservation Authorities of Ontario
Gloria Boxen, Joan Doiron and Jeff Stone, Coalition on Sensible Transportation
C.W.D. Foster, Forbid Roads Over Green Spaces (FROGS)
Joseph McKenzie, Private Marina Co-operators
Harold Gilbert, Better Roads Coalition, Toronto
Ross Snetsinger, Rail Ways To The Future Committee
Allen White, Port Franks, Ontario
Vickie Harju, Thunder Bay, Ontario
John R. Allen, Toronto, Ontario

The newspaper advertisement requesting submissions is attached.

Ontario Financial Review Commission

The Ontario Financial Review Commission has been set up by the Government of Ontario to review the financial practices of the Government, including its Crown corporations, boards and commissions. It has been requested to provide a final report to the Minister of Finance by October 31, 1995.

The Commission will look at:

- the desirability of adopting Public Sector Accounting and Auditing Board standards, currently used in preparing the summary financial statements, in the estimates and budget;
- the reporting practices and the reporting of the activities of several Crown agencies;
- making sure timely and relevant information is available to government and to the public;
- improving financial management and reporting in the estimates, budgets, quarterly finances, agencies' annual reports, and the Public Accounts;
- providing a prudent planning framework for the budget and medium-term plan.

Interested organizations and members of the public are invited to make written submissions on these matters to the commission no later than September 11. The Order-In-Council is available on request. Submissions should be no longer than ten pages and should be sent to:

Michael L. Gourley
Secretary, Ontario Financial Review Commission
7 Queen's Park Crescent
Toronto M7A 1Y7

Ontario

Appendix III. Principles of performance measurement

This appendix includes the following information and illustrations in connection with performance measurement:

(A) A summary of material presented by the Canadian Comprehensive Audit Foundation to the Ontario Financial Review Commission (October 1995)

(B) Ontario Ministry of Transportation: Extracts from a report entitled *How to develop and use Performance Measures and Standards—A Guide* (October 1994)

(C) Introduction to *Measuring Up—First Annual Report by the Government of Alberta* (June 1995)

(D) Executive summary from *Enhancing Accountability for Performance in the British Columbia Public Sector* (June 1995)

Summary of material on performance measurement submitted by the Canadian Comprehensive Audit Foundation to the Ontario Financial Review Commission

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October 1995

Note: This summary was prepared by staff of the Ministry of Finance.

Why measure performance?

- To ensure decisions are made on the best possible basis, decision-makers need to know the extent to which:

  - a program or service is relevant to government's goals;
  - workers understand government's direction and are aligned with it;
  - the way the activity is carried out fits with and meets government's goals;
  - customers are satisfied;
  - goals are achieved cost-effectively;
  - there are controls in place to safeguard assets; and
  - activities are reported fully and accurately.

Performance measures can help management to judge how well an organization meets these standards. They also provide an objective means of measuring whether management changes do, in fact, improve an organization's performance.

What is key to measuring and improving performance in government?

The system must both reflect a determination to align performance with the organization's mission and create a culture that supports that goal over the long term. There must be useful relationships between those who provide information and those who receive it. Specifically:

- **The organization as a whole**

  - needs the benefit of personal and visible support for performance measurement at the most senior levels, including elected officials and deputies;
  - needs incentives for taking part in performance measurement (or disincentives for failing to do so); and
  - must have a system in place that can generate the appropriate information.

- **Those who put the system in place**

  - must recognize that legislation is the best means of ensuring long-term continuity and use of the system;
  - must ensure that it is flexible and penalizes only those who do not fulfill their obligations to it;
  - must understand that the broad spectrum of information needed for decision-making may have to come from a variety of sources and systems, and should take advantage where possible of those already in place;
  - must provide for an objective check, such as an audit, of the reliability and completeness of the information being provided;
  - should try to match the time horizon of a program's impact with the time horizon of the performance indicator; and
  - must recognize that performance measures will sometimes have to reflect the complexity of the program being measured.

- **Those who receive information on performance**

  - need to know what information will be most useful to them, based on their mandate and the goals of the organization, and must set out targets for expected performance;
  - must make sure the right arrangements are in place to get the information; and
  - must use the information fairly and appropriately.

- **Those who provide the information**

  - must collect the information as promptly as possible;
  - must make sure it is complete enough to give an accurate picture; and
  - must provide any explanations needed by those receiving it.

- **All parties** should share a commonly-agreed basis for measuring and reporting on performance that

  - serves as a bridge between their needs and obligations;
  - focuses on past results and ability to adapt to future needs as they develop;
  - allows all parties to judge the fairness and completeness of information; and
  - allows for flexibility while ensuring that unexpected results are explained.

HOW TO DEVELOP AND USE PERFORMANCE MEASURES AND STANDARDS – A GUIDE

Prepared by the Customer Service Improvement Team

Customer Service Branch
Ministry of Transportation

Revised: October 1994

Customer Service Improvement Team

PERFORMANCE MEASURES

WHAT ARE PERFORMANCE MEASURES?

Performance measures are the quantitative measures which assess the effectiveness and efficiency of a product, service or process.

Performance measures tell us whether the process that is used to deliver a product/service is the "best" way.

Generally, performance measures fall into six primary categories:

- **Time**: Time it takes to complete a process (cycle time) or deliver a service or product.
- **Effectiveness**: Doing the right things, meeting corporate objectives and strategic directions.
- **Quality**: A measure of the extent to which a product or experience (service) meets a need, solves a problem or adds value for someone (i.e., your customer).
- **Efficiency**: Outputs relative to inputs: doing things right every time.
- **Costs and productivity**: Cost to provide a product or service; the relationships among costs, inputs and outputs.
- **Safety**: The extent to which important assets -- such as personnel, sources of supply, property, records -- are safeguarded so that the organization is protected from the danger of losses that could threaten its success, credibility, continuity, etc.

WHAT WILL PERFORMANCE MEASURES DO?

√ Obtain feedback on how well the activities of the work area are doing in meeting the needs and expectations of your internal and/or external customer(s).

√ Determine how well the work area is performing these activities.

√ Show how the key activity(s) performed within the work area contribute to the strategic direction of the organization.

√ Facilitate "resource modelling"; that is, understanding what standard is expected by the customer, at what price (if any), in which location, then determining which level of service and what resources are necessary to deliver this level.

√ Incorporates customer service principles into the business process.

WHEN DO YOU USE PERFORMANCE MEASURES?

Performance measures should be developed and used when a work unit wants to measure how well a product or service meets the customer's needs. The customer may be your supervisor in an organization (internal customer), or the general public (external customer), or both. Performance measures will tell you if something is wrong with the way a service or product is delivered in terms of its efficiency, quality, cost, cycle time, effectiveness or safety.

For example, a performance measure for your car's fuel efficiency is the number of litres of gasoline per kilometre used. If this number suddenly changes or gradually decreases over a period of time, this measure will tell you that something is wrong with the car since the fuel efficiency is not as good as it once was.

Performance measures cannot be developed, used and abandoned. To continuously identify methods of improving your product or service delivery, performance measures <u>must</u> be used on an ongoing basis.

PERFORMANCE MEASURES ARE <u>NOT</u>:

- Standards
- Benchmarks

Measuring Up

First Annual Report by the Government of Alberta

June 1995

Alberta
GOVERNMENT OF ALBERTA

Introduction

"Measuring performance is critical to improving performance. Albertans need performance measures which are easily understood and lead to wise decisions. Simplicity, clarity and candour are the essence of good accountability."

With those words, Alberta's Auditor General set out both the objective for measuring performance — to improve performance — and the standard we need to meet — simplicity, clarity and candour.

When the government of Alberta took the important first step of laying out three year business plans and budget targets, the expectation was made very clear. Simply having three year plans and accounting for the dollars that were spent on those plans was not good enough to meet the test of accountability. To provide full accountability, government needs to measure its results and share that information with Albertans.

As government's first business plan describes it, "By focusing on outcomes and keeping track of results, government departments can adjust programs as they learn more about what works and what does not. By setting benchmarks and targets and measuring progress against high standards and expectations, we can evaluate our achievements, provide reliable information to Albertans, and focus our efforts and resources to strategies and programs where we get the best results."

The measures we choose are important. As a recent article puts it, "There are few more powerful signals of what a company [or a government] stands for than the ways it defines and measures performance." The measures we choose and the targets we set should measure progress towards:

- improving things Alberta needs to do better
- maintaining aspects of Alberta life that shouldn't be allowed to erode
- reducing problems that stand in the way of progress, and
- ensuring that all Albertans participate in Alberta's prosperity and quality of life.

This first annual report of performance measures will set the stage for a growing emphasis on achieving results, on tying budget decisions to programs that work well, and finally, on tracking important trends in the changing face of our province.

AUDITOR GENERAL OF BRITISH COLUMBIA
AND
DEPUTY MINISTERS' COUNCIL

JUNE 1995

ENHANCING ACCOUNTABILITY FOR PERFORMANCE IN THE BRITISH COLUMBIA PUBLIC SECTOR

Executive Summary

This report—*Enhancing Accountability for Performance in the British Columbia Public Sector*—is unique in that it represents the joint efforts of the Deputy Ministers' Council and the Auditor General of British Columbia. It reflects our mutual desire to bring about comprehensive accountability for performance and, with it, continuing improvements in performance management in the public sector.

The business of government has evolved over many years so that today governments are involved in many aspects of a citizen's life. At the same time, public information about governments' activities has remained focused on issues of probity, prudence, and compliance with spending authorities. This is now changing, however, with the public wanting to know what their governments intend to achieve and why, and what they have actually achieved and how. But little information is available about government objectives and results for the range of its activities—particularly its organizational and program performance. This is not unusual; many jurisdictions in Canada and elsewhere are in a similar position and have only recently begun to examine accountability in terms of government results, rather than in terms of inputs, processes, and compliance.

Accountability for results is critical, not only to legislators in assessing government performance, but to government itself in managing its programs and services on behalf of the public. Consequently, the Auditor General has met with senior public sector executives and has held initial discussions with Members of the Legislative Assembly from all parties. These discussions have highlighted the consensus emerging in British Columbia, among politicians and senior public sector executives alike, that a focus on results is important.

Over the past year, the Auditor General of British Columbia and the Deputy Ministers' Council have been working together to bring about a focus on results for the range of government activities. This report represents the first step in that process, outlining the basis for an accountability framework—that is, a way of clearly addressing:

- who is accountable to whom and for what;
- what information should be reported;
- how much information should be reported;
- what the quality of the information should be;
- how the information should be verified;
- how accountability information should be provided;

- when accountability information should be provided; and
- what the Legislative Assembly should do with the information it receives.

In this report, we recommend that accountability information be conveyed between various levels of governing: from the individual to the program level; from the program level to the corporate level; from the corporate level to the government level; and from the government level to the Legislative Assembly, on behalf of the people. We also recommend that accountability be comprehensive in its scope, applying to ministries, Crown corporations, and funded agencies (such as regional health boards and school boards), as well as government as a whole.

We believe an effective accountability framework requires that government be clear about both its intended and actual results. Therefore, the framework should be closely integrated with a performance management system that includes:

- clear objectives;
- effective strategies;
- aligned management systems;
- performance measurement and reporting; and
- real consequences for the success or failure of programs.

This information should cover the range of government activities to allow an assessment of its financial performance, its legal compliance and fairness, equity and probity, and its organizational and program performance. Of course, the type of information and level of detail to be provided would vary according to the level of accountability, but it would be based on the same information a government requires for effective management.

We suggest that the information reported be required to meet certain basic criteria, such as being relevant, complete, timely, and verifiable. Since no single report can serve the accountability interests of everyone, a variety of reports may be necessary. Summary level reports would be useful at the government–wide level; sectoral reports would provide valuable information about the status of particular policy areas of government (such as the environment); and organizational reports would provide more detailed information about the operations of government programs. It is important that performance information, such as would be contained in these reports, be reported regularly to the Legislative Assembly.

Finally, we note that the role of Members of the Legislative Assembly is fundamental to accountability because it is largely through the Assembly that government is held accountable to the people for its performance. The needs of the Assembly are, therefore, critical in designing an appropriate accountability framework. With this in mind, the Auditor General will, in the coming months, be seeking the views of Members of the Assembly as to how accountability can be improved.

In the meantime, the Auditor General and the Deputy Ministers' Council will continue to work together to develop a comprehensive accountability framework for British Columbia. As part of this process, we are inviting members of the public to express their views to us concerning performance management and accountability in this Province. This work will take time and, we believe, should be done in phases. Phase I will see the development of the framework for government ministries and Crown corporations and an action plan for its implementation. Phase II will see the adaptation and implementation of this framework to the accountability relationship between ministries and funded agencies (such as regional health boards and school boards).

It is intended that Phase I will be completed by March 31, 1996 and a second report, setting out a comprehensive accountability framework for government, issued at that time.

Appendix IV. Public-sector incentives

Extracts from a speech by Peter Larson, executive vice-president Public Policy Forum, to the Ottawa Human Resources Professionals Association, May 24, 1995:

> *Let's face it, governments do some very important things in this country, and even after all of the downsizing and privatizing is over and done with, we will still look to governments to do some very important things. That's why public servants ought to have the tools they need to do their jobs well. That includes a pay system that makes sense.*
>
> *I'm not suggesting that pay is the only problem in our public service. Far from it. But, the pay situation is a critical piece of the solution. How many times have you heard people talking about the need to change the culture of government? But how do you do it if you work from the basic premise that there will be no reward for breaking with the past, for becoming customer-driven and team-oriented?*
>
> *Of course, governments should get down to the core businesses. Of course, they should cut overheads and use technology better. But surely, the objective is not just to make government smaller, it's to make smaller government work better.*
>
> *We should point out that people are not only the most important resource in the public service, they are just about the only resource.*

Extracts from the 1995 Annual Report of the Auditor General for the Province of Alberta:

> *As was stated in the last Auditor General's report, unless there are systems to ensure that the best people are rewarded, they tend to move on. In my experience, in order to sustain progress, you must be prepared to reward those who contribute to an organization's success.*
>
> *If increases in public sector salaries were linked to demonstrated improvements in the cost-effectiveness of government operations, with its consequent effect on the deficit, I believe that such increases would be considered reasonable and appropriate. If this approach was adopted, it occurs to me that it would naturally complement the government's agenda on performance measurement. By stating publicly that future salary increases, or a portion thereof, will be*

linked to published improvements in cost effectiveness, the government would encourage more people to focus on results.

A program based on the work of Professor Peter Richardson of the Business School at Queen's University, tying incentives directly to finding cost-saving measures, has been put in place in Pittsburgh Township, near Kingston. The program is described in more detail in the township's publication, *Cost Management in Pittsburgh Township,* and accompanying video. These are available through the provincial bookstore, Publications Ontario.

The township:

- educated its 45 employees about the township's costs;
- asked them to submit and implement suggestions for cost savings in all areas, not just their own departments;
- asked them to look for opportunities to reduce costs, enhance non-tax revenues, and improve work processes; and
- returned a share of savings to employees.

To date, the township reports that it has reduced operating costs by 10% and increased non-tax revenue by 5% in less than three years.

Appendix V. Accountability legislation in the Province of Alberta

The following is a summary provided by the government of Alberta of accountability legislation in that province:

> The Government Accountability Act was passed in the 1995 Spring Session of the Alberta Legislature and provides a framework for government and ministerial accountability to the public.
>
> The Act requires the Provincial Treasurer to prepare and table:
>
> - a consolidated fiscal plan for the government including revenue, expenditure, capital investment, liabilities, and borrowing requirements
> - a consolidated business plan outlining the government's core businesses, performance measures, results expected, and ministry business plans
> - quarterly reporting on the province's finances
> - a consolidated annual report including financial statements and performance results.
>
> In addition, Ministers are also required to prepare and table business plans and annual reports containing financial and performance information for all entities which are the Minister's responsibility.

Appendix VI. The Public Sector Accounting and Auditing Board (PSAAB)

The Public Sector Accounting and Auditing Committee was created in 1981 by The Canadian Institute of Chartered Accountants, the governing body of the Canadian accounting profession. In 1993 the Committee was restructured and given its present name.

The Institute has given PSAAB the authority to issue recommendations and guidelines on matters of accounting and auditing for the public sector, which it defines as federal, provincial, territorial and local governments and government entities. In its Handbook of recommendations, PSAAB says it aims to strengthen accountability in the public sector by "developing, recommending, and gaining acceptance of accounting, financial reporting and auditing standards of good practice."

The following is from the introduction to the PSAAB Handbook:

> *The Accounting Recommendations of the Board are intended to apply to all governments unless specifically limited in individual Sections. Profit-oriented entities in the public sector should adhere to the Accounting Recommendations in the CICA Handbook. Other entities in the public sector may base their accounting policies either on the Board's Accounting Recommendations or on the Accounting Recommendations in the CICA Handbook, selecting the basis that is the more appropriate to their individual objectives and circumstances. The basis chosen should be disclosed and consistently applied.*
>
> *The Auditing Recommendations of the Board are intended to apply to all entities in the public sector. In the absence of Auditing Recommendations by the Board, auditors of public sector entities should have regard to the Auditing Recommendations in the CICA Handbook.*

Standards are developed by the people who will be governed or affected by them. Serving as individual volunteers and not repesentatives of their particular organization, they include deputy and assistant deputy ministers, comptrollers, auditors general, municipal finance officers and executives of government organizations. Two-thirds of the roughly 200 members of PSAAB and its task forces are drawn from those responsible for government financial reporting and auditing, which helps to ensure its standards are appropriate for government.

Appendix VII. Accounting treatment of capital assets

At present, Ontario's financial statements show as an expenditure in the year the money is spent:

- all direct government spending on capital assets, such as provincial highways; and

- all funds provided to service organizations and to transfer partners such as school boards, hospitals, municipalities, and other public-sector bodies for capital assets.

The only capital assets which are not expensed immediately are those of government enterprises, which are capitalized and amortized. Section III of the report deals in more detail with Crown agencies and their reporting.

The current financial statement treatment means that provincial expenditures include the full cost of most capital assets in the year they are bought or built. This is despite the fact that the asset is expected to provide service over several years. Since the annual deficit is the amount by which expenditure exceeds revenues, the annual deficit now shows the impact of most capital spending in the year the money is spent.

This treatment is in line with the practices of many other governments in Canada. However, private-sector practice is different, in that it more closely reflects the multi-year life of capital assets. A private-sector entity does not treat capital spending as an expense in the year the asset is bought or built. Spending on capital assets does not go through its income statement directly and so does not directly reduce its net income. Instead, it appears as a long-term asset on the balance sheet.

The cost of capital assets is reflected in the income statement over their estimated useful life through an expense called "amortization" (or "depreciation"). Amortization represents a share of the original cost of the capital asset. In the private-sector context, the income statement also reflects the higher revenues and/or lower costs of operation that the asset generates. On the balance sheet, amortization lowers the asset's net book value each year.

The current PSAAB discussions on public-sector capital assets centre on the need to reflect the costs of capital assets over their years of service, as is done in the private sector. Changing the accounting treatment so that capital assets are no longer expensed would allow governments to:

- show capital assets on the balance sheet, reflecting direct government spending on physical assets that give several years of service; and

- show an amortization charge each year that reflects the use of physical assets over time.

However, PSAAB also recognizes that adopting capitalization and amortization of assets will have far-reaching impacts on public-sector accounting.

First — and most important, from a public accountability viewpoint — it will change the definition of a government's annual deficit (or surplus). The annual deficit will no longer include total spending on capital assets. It will reflect instead a charge that represents the annual cost, over the life of its assets, of using them.

This has the potential to end the current close link between the size of the annual deficit and the amount of new debt a government takes on that year. (The two figures are not identical, because of accruals, borrowings for the next year, and other factors; but the annual deficit is currently a close proxy for the new debt.)

Depending on how capitalization and amortization is applied to the existing stock of assets, especially in the early years after adoption, there is the possibility of the reported deficit being considerably less than the additional new debt.

PSAAB's decisions on how governments should account for their capital assets — including buildings, equipment, and such infrastructure items as highways — will be critical in arriving at the "deficit" of a public-sector entity.

PSAAB recognizes the difficulties in changing from the current "expenditures" model used to calculate the deficit to one that reflects "costs of operation" and is considering ways of dealing with this issue.

For internal purposes, a cost of operations model which includes amortization offers considerable benefits by focusing management attention on the annual cost of a capital asset over its useful life. The present treatment has a considerable impact on activity or program costing by expensing the capital asset in the year in which it is built or bought, instead of over its expected useful life. Including some figure for the cost of capital over its life will become more important, as well, when the government adopts performance measurement.

Appendix VIII. Alternative delivery options

Public Sector:

Direct Delivery:	Government provides services directly through its ministries. Costs of service delivery are funded through general government revenues.
Direct Delivery (User Pay):	Government provides services directly through its user pay ministries. Users of the service pay all or a portion of the costs of the service. Possible variants on this option include dedicating revenue, and net voting where revenues received during the year are added to the appropriated amount and the total may be spent without further legislative approval.
Agencies, Boards and Commissions:	Government provides services through an agency operating at varying degrees of independence from the administration of the government.

Private Sector:

Contracting Out:	All or part of the government service is contracted from a supplier/outside organization while the government maintains responsibility for the delivery of the service.
Partnership:	Government, in partnerships with another party, provides services sharing in the funding, risks and rewards.
Licensing:	Government confers to an external organization the right or license to sell a service or a product according to prescribed terms and conditions.
Regulation:	Government controls the level of service offered by regulating and monitoring the activities of service providers.
Privatization:	Government divests itself of providing service by selling off its assets or controlling interest.

Appendix IX. Crown agencies and their accounting treatment

There are currently three different systems for classifying Crown agencies, two relating to their organization and one relating to their accounting treatment.

Organization of Crown agencies

The Ontario Legislature creates agencies, which may also be called boards, commissions, councils, authorities or foundations. All agencies fall under the control of a government Minister.

One classification of agencies is by function:

Advisory agencies help develop policy or deliver programs.

Operational agencies deliver goods and/or services in line with a government policy or program and may operate like commercial ventures.

Regulatory agencies set and enforce rules for public and/or private sector activities, as authorized by the Province.

There is another classification system that relates to the powers and responsibilities of agencies. Under this classification system, each agency falls into one of four "schedules:"

Schedule 1 includes all agencies funded directly by the government or by fees collected from the public. All advisory and regulatory agencies — comprising more than 90 per cent of all provincial agencies — fall into this schedule.

Schedule 2 agencies carry out commercial activities and may replace or compete with private-sector firms. They are intended to be self-funding, but may get loans or subsidies from government in the start-up stages of their operation. If required by the minister responsible, they may have to carry out money-losing operations in line with government policy, in which case they are compensated.

Schedule 3 includes non-profit, social and cultural agencies. These are often made up of, or work closely with, people outside government — from business, community and cultural groups and public organizations. While they get some or all of their funding from the government, they

may also charge fees, take charitable donations, or be otherwise self-funded but non-commercial.

Schedule 4, a new schedule created in 1993, includes some agencies that sell goods or services to the public. Like Schedule 2 agencies, those Schedule 4 agencies that are intended to fund themselves from their own operations may need subsidies at certain times. Other Schedule 4 agencies need ongoing government funding.

Accounting treatment of Crown agencies

Crown agencies are accounted for under a third system of classification. In this system, they are either "government enterprises" or "service organizations."

Government enterprises, under current accounting practices, have as their main activity the sale of goods or services to parties outside government. They do not have to be "self-sustaining:" that is, they do not have to earn enough revenues from their outside sale of goods and services to cover their costs on an ongoing basis. Government enterprises follow generally accepted accounting principles in their reporting. They are consolidated on the modified equity basis in the Province's accounts.

Service organizations are agencies that do not, as their main activity, sell goods or services to parties outside government. They receive all or part of their funding from government. Service organizations follow public-sector accounting practices in their reporting. They are consolidated on the line-by-line basis in the Province's accounts.

Under a new standard proposed by PSAAB, a government enterprise will have to:

- sell goods or services to non-government entities as its main activity; and

- be able to operate in the normal course of business without funding from government (i.e., be "self-sustaining").

Under this proposed PSAAB guideline, several agencies which now report as government enterprises would report as service organizations instead.

Glossary

Accountability framework	A structured set of rules/guidelines governing an organization's operations/activities that make clear who is accountable for those operations/activities, to whom they are accountable and how they are accountable.
Accrual accounting	The method of recording transactions by which revenues and expenses are reflected in the determination of results for the period in which they are considered to have been earned and incurred, respectively, whether or not such transactions have been settled finally by the receipt or payment of cash or its equivalent.
Accumulated deficit	On the Province's Statement of Financial Position, the difference between liabilities and financial assets (which are at present the only assets the Province records on its balance sheet). It represents the accumulation of past annual deficits minus past annual surpluses.
Annual deficit	See "deficit."
Amortization	See "depreciation."
Balance sheet	A statement of financial position showing an entity's assets, liabilities and the resultant accumulated equity (or deficit, if liabilities are greater than assets). The equivalent for the Province is its Statement of Financial Position.
Budget	An outline of expected revenues and expenditures for a specified year. The Budget is tabled in the Legislature as the government's financial plan.
Business plan	A set of plans explaining the rationale for activities that aim to achieve specific outcomes and outputs, and outlining the inputs that will be needed.
Capital assets	Identifiable publicly owned structures and equipment with an estimated useful life greater than one year, employed in operations to provide future benefits. Also "physical assets."
Capitalize	To record an expenditure as a capital asset rather than as an expense.
Consolidation	The process of combining the financial statements of separate entities of a group on a line-by-line basis, i.e, by adding together their assets,

	liabilities, revenue and expenses, after appropriate adjustments (including elimination of transactions between members of the group).
Contingency	An existing condition or situation involving uncertainty as to possible gain or loss that will ultimately be resolved when one or more future events occur or fail to occur.
Contingency fund	Money set aside to deal with the impact of negative unforeseen economic changes.
Crown agency	An organizational unit with ongoing responsibilities, which is formally established by government and to which the majority of members is appointed or elected by, or subject to the approval of, the Cabinet or a minister.
Deficit/deficit target	The amount by which expenditure exceeds revenue in a one-year reporting period; in accounting terms it is properly called the "annual deficit," but in government it is generally called the deficit. The deficit target is the expected annual deficit for a specified year.
Debt/debt target	Debt is the total of the legal, interest-bearing obligations that result from an external party lending money to the Province; debt target is the level of debt at a specified point in future at which government is aiming.
Delivery mechanism	The method employed to provide a service.
Depreciation	Depreciation accounting is a procedure in which the cost or other recorded value of a fixed asset less any estimated value on disposal is distributed over its estimated useful life in a systematic and rational manner.
Equity	The ownership interests in the recorded assets of an entity after deducting its recorded liabilities.
Estimates	Details of government's operating and capital requirements for a one-year period. The Estimates constitute the government's formal request to the Legislature for approval of spending authority.
Exposure	The extent of a risk.
Extraordinary items	Unusual events or activities outside of an entity's normal operations that are not expected to occur frequently and do not depend primarily on decisions or determination of management.

Financial statements	A set of statements that reports on an entity's financial position, the results of its operations for a specified period and the changes in its financial position.
Fiscal forecast	Future-oriented financial information reflecting the government's planned courses of action, given its judgement as to the probable set of economic conditions which will prevail.
Fiscal plan	The government's course of action to set policies of taxation, and the allocation of public spending.
Fiscal year	An organization's accounting year. For the Province of Ontario it is April 1 to March 31.
GAAP	Generally accepted accounting principles, accounting principles widely accepted as standards for reporting the financial performance of private-sector entities.
Governance	The process and structure used to direct and manage the affairs of an organization with the objective of enhancing stakeholder value, which includes ensuring the financial viability of the organization.
Income statement	Presentation of results of operations for a period which shows revenues, expenses and net surplus/deficit. The equivalent for the Province is the Statement of Operations.
Inputs	The resources that an organization expends in its efforts to produce a good or service.
Modified cash basis of accounting	Recognition of revenues and expenditures when cash is received or paid, modified to include, at the year end, the cost of goods and services received during the fiscal period just ended and paid for in the ensuing 30 days.
Modified equity basis	A method of reflecting the activities of government enterprises in the financial statements of the Province under which they are not consolidated on a line-by-line basis, but rather their net assets are included on one line in the Statement of Financial Position and their net income is included on one line in the Statement of Operations and Accumulated Deficit, using accounting principles generally accepted for commercial enterprise in the private sector to measure their assets, liabilities and profits.
Non-tax initiative	A plan or measure that aims to raise revenue for government from any source other than taxation or transfer payments from another level of

government. Examples would include revenues from fees and licences; profits from a self-sustaining Crown agency; royalties; and asset sales.

Outcomes	All the results, intended or not, that flow from attempts to produce a good or service. Outcomes, as opposed to outputs, are not necessarily quantifiable.
Outputs	The measurable level of goods or services produced by an organization.
Provincial Auditor	An officer of the Legislature charged with the responsibility of auditing the Public Accounts of the Province and conducting value-for-money audits of ministry programs.
PSAAB	Public Sector Accounting and Auditing Board, a body established by The Canadian Institute of Chartered Accountants which issues recommendations and guidance with respect to matters of accounting and auditing in the public sector.
Public Accounts	The document that contains the audited summary financial statements of the government and such other financial information as required by the Ministry of Treasury and Economics Act.
Projections	Future-oriented financial information prepared using assumptions that reflect management's possible courses of action for the period covered.
Public interest	The notion that defines when or under what circumstances the government will be involved in the delivery of a good or service and regulate for the protection and safety of its residents.
Risk management	The set of activities which an organization undertakes in order to minimize exposures it faces in its business activities.
Self-sustaining	The ability of a government agency to generate enough revenues by selling goods and services to parties outside government that it covers its annual expenses.
Statutory spending	Expenditures that are established in legislation and are outside government's discretion. Public debt interest is the largest item of statutory spending for the Province of Ontario.
Table	To present formally for consideration by the Legislature or one of its committees.

Transfer partners	Other levels of government, agencies and public-sector organizations to which the Province provides funding for specific programs.
Transfer payment	A payment made by the Province to one of its transfer partners, or received as revenue from the federal government.
Unfunded liability	In the context of the Workers Compensation Board, the shortfall between the present resources of the Board and its liability for benefits it must pay out in connection with existing work-related injuries and diseases, as calculated by an actuary.